Annexure 1

Draft 3

This document includes proposed amendments to the Regulations relating to Banks based upon:

1. The Basel III post-crisis reform package, issued by the Basel Committee on Banking Supervision, including:

The standardised approach for credit risk
The revised internal ratings-based approach for credit risk
The new standardised approach for operational risk
The revised exposure definition of the leverage ratio framework
The output floor

as well as

2. Comments received from key interested persons in respect of:

draft 1, published on 12 September 2022 for comment; and
draft 2, published on 21 September 2023 for comment

4 May 2024

GOVERNMENT NOTICE

NATIONAL TREASURY

No. 2024

AMENDMENTS TO REGULATIONS IN TERMS OF BANKS ACT, 1990

The Minister of Finance has, in terms of section 90 of the Banks Act, 1990 (Act No. 94 of 1990), amended the Regulations relating to Banks which were published in Government Notice No. R. 1029 of 12 December 2012, as amended by Government Notice No. R. 261 of 27 March 2015, Government Notice No. R. 309 of 10 April 2015, Government Notice No. R. 297 of 20 May 2016, Notice No. 724 of 18 December 2020, Notice No. 1427 of 31 December 2020, Notice No. R. 943 of 31 March 2022, Notice No. 2561 of 30 September 2022, and Notice No. 2900 of 23 December 2022, as set out in the Schedule.

SCHEDULE

Definitions

1. In this Schedule, "the Regulations" means the Regulations published under Government Notice No. R. 1029, in *Government Gazette* No. 35950 on 12 December 2012, as amended by-

   (a) Government Notice No. R. 261, in *Government Gazette* No. 38616 of 27 March 2015;

   (b) Government Notice No. R. 309, in *Government Gazette* No. 38682 of 10 April 2015;

   (c) Government Notice No. R. 297, in *Government Gazette* No. 40002 of 20 May 2016;

   (d) Notice No. 724, in *Government Gazette* No. 44003 of 18 December 2020;

   (e) Notice No. 1427, in *Government Gazette* No. 44048 of 31 December 2020;

   (f) Government Notice No. 943, in *Government Gazette* No. 46159 of 31 March 2022;

   (g) Notice No. 2561, in *Government Gazette* No. 46996 of 30 September 2022; and

   (h) Notice No. 2900, in *Government Gazette* No. 47789 of 23 December 2022.

Amendment of regulation 23 of the Regulations

2. Regulation 23 of the Regulations is hereby amended:

   (a) by the deletion in subregulation (3) of item (D) of proviso (ii);

   (b) by the renumbering in subregulation (3) of item (E) of proviso (ii) as item (D);

   (c) by the substitution for subregulation (5) of the following subregulation:

      “(5) *Calculation of credit risk exposure: standardised approach*

      Subject to the relevant requirements specified in regulation 38(2) and subregulation (20), a bank that adopted the standardised approach for the measurement of the bank’s exposure to credit risk-

      (a) shall calculate its exposure to credit risk, at the discretion of the bank, either in accordance with Method 1, as set out in subregulations (6) and (7), or Method 2, as set out in subregulations (8) and (9);

      (b) shall in a consistent manner, in accordance with the relevant requirements specified below, and in terms of the bank’s internal risk management process, apply the ratings or assessments issued by an eligible external credit assessment institution or export credit agency, selected or nominated by the bank, to calculate the bank’s risk exposure in terms of the relevant provisions contained in these Regulations, provided that, the bank shall not “cherry pick” ratings or assessments issued by different external credit assessment institutions, arbitrarily change the use of eligible external credit assessment institutions or apply ratings or assessments for purposes of these Regulations differently from the bank’s internal risk management process.

(i) *Multiple assessments*

When a bank has a choice between-

(A) two assessments issued by eligible external credit assessment institutions chosen by the bank, which assessments relate to different risk weighting categories, the bank shall apply the higher of the two risk weights;

(B) three or more assessments issued by eligible external credit assessment institutions chosen by the bank, which assessments relate to different risk weighting categories, the bank shall apply the higher of the lowest two risk weights.

(ii) *Issuer versus issue-specific assessment*

(A) When a bank invests in-

(i) an instrument with an issue-specific assessment, the bank shall risk weight the instrument based upon the said issue-specific assessment;

(ii) an instrument issued by an issuer with a high-quality rating, that is, a rating that maps into a risk weight lower than the risk weight normally applied to an unrated position, but that high-quality rating applies only to a limited or specified class of liabilities, the bank shall use that high-quality rating only when the bank invests in an instrument or exposure that falls within that relevant limited or specified class of liabilities;

(iii) an instrument with no issue-specific assessment or an unrated instrument issued by a borrower or an obligor, which borrower or obligor is assigned-

(aa) a high-quality credit assessment, that is, an assessment that results in a risk weight lower than the risk weight normally applied to an unrated position, the bank may assign that lower risk weight to the said unrated position, provided that-

(i) the claim in respect of that unrated position shall rank *pari passu* or senior to the claims to which the issuer assessment relates;

(ii) when the unrated position ranks junior to the claims to which the issuer assessment relates, the bank shall assign to the said position the relevant risk weight that relates to an unrated position.

(bb) a low-quality assessment, that is, an assessment that results in a risk weight higher than the risk weight normally applied to an unrated position, the bank shall assign to the said unrated position the said higher risk weight if that unrated instrument ranks *pari passu* or is subordinated to either the relevant senior unsecured issuer assessment or exposure assessment.

Provided that in all cases, irrespective of whether the bank relies on an issuer or issue-specific assessment, the bank shall ensure that the relevant assessment takes into account and reflects the aggregate amount of credit exposure in respect of all amounts due, that is, the relevant principal amount due as well as any related interest, and as such no instrument with a principal-only rating shall, for example, constitute an eligible risk mitigation instrument in terms of the provisions of subregulation (7) or (9).

(B) A bank shall in no case use an external assessment relating to a particular entity within a corporate group to risk weight other entities within that same group.

(iii) Foreign currency and domestic currency assessments

When a bank assigns a risk weight to an unrated position based on the rating of an equivalent exposure to that borrower to which an issuer rating is assigned, the bank-

(A) shall use that borrower's foreign-currency rating in respect of exposure denominated in foreign currency;

(B) shall use that borrower's domestic-currency rating in respect of exposure denominated in domestic currency.

(iv) Short term versus long term assessments

(A) Unless specifically otherwise provided in these Regulations, for the measurement of a bank's exposure to credit risk, a short-term credit assessment-

(i) shall be deemed to be issue-specific, that is, the assessment shall be used only to derive risk weights for claims arising from a rated facility;

(ii) shall in no event be used to support a risk weight for an unrated long-term claim or exposure;

(iii) shall be used only for short-term claims against or exposures relating to banks or corporate institutions, such as a particular issuance of commercial paper,

Provided that when a short-term rated facility is assigned a risk weight of 50 per cent, an unrated short-term exposure or claim shall not be assigned a risk weight lower than 100 per cent.

(B) Subject to the relevant requirements specified in subregulation (7) or (9) below related to risk mitigation, when a short-term facility of a particular issuer is assigned a risk weight of 150 per cent, based on the facility's credit assessment, all unrated exposures or claims of the said issuer, whether long-term or short-term, shall be assigned a risk weight of 150 per cent.

(v) Unsolicited ratings

A bank shall not without the prior written approval of the Authority or otherwise than in accordance with conditions approved in writing by the Authority make use of unsolicited ratings issued by an eligible external credit assessment institution.

(c) shall duly assess all relevant credit exposures, regardless of whether the said exposures are rated or unrated, to determine whether the risk weights applied to the said exposures in terms of the provisions of subregulations (6) to (9) are appropriate, based on the respective exposures' inherent risk, provided that, when the bank determines that the inherent risk of an exposure, particularly if the exposure is unrated, is significantly higher than that implied by the risk weight to which it is assigned, the bank shall consider the higher degree of credit risk in the evaluation of its overall capital adequacy and appropriately increase the required amount of capital and reserve funds held to duly reflect the inherent risk of such exposures;

(d) shall comply with the relevant requirements specified in subregulations (6) to (9) below.";

(d) by the substitution in subregulation (6) for paragraph (a) of the following paragraph:

"(a) In the case of exposure to sovereigns, central banks, public-sector entities, banks, securities firms and corporate institutions, in accordance with the provisions of table 1 below:

Table 1

Claim in respect of-	**Export Credit Agencies: risk scores relating to sovereign[1]**				
	0-1	**2**	**3**	**4 to 6**	**7**
Sovereigns (including the Central Bank of that country)	0%	20%	50%	100%	150%
Public-sector entities	20%	50%	100%	100%	150%
Banks [2, 3, 4]	20%	50%	100%	100%	150%
Securities firms[2, 4, 6]	20%	50%	100%	100%	150%
Banks: short-term claims [5]	20%	20%	20%	50%	150%
Securities firms: short-term claims [5, 6]	20%	20%	20%	50%	150%
Corporate entities	**Any corporate exposure, including claims on insurance companies**				
	100%				

1. **Relates to the consensus country risk scores of export credit agencies participating in the "Arrangement on Officially Supported Export Credits". The consensus country risk classification is available on the OECD website, at www.oecd.org, in the Export Credit arrangement web-page of the Trade Directorate.**
2. **Based on the sovereign rating.**
3. **Include any claim on any financial institution licensed to take deposits from the public and that is subject to prudential regulation and supervision similar to an institution registered in terms of the Banks Act, 1990 to conduct the business of a bank, including loans and senior debt instruments, but not any form of subordinated debt as envisaged in paragraph (j), regulations 31 and 38 or otherwise included in the definition of Common Equity Tier 1 capital, Additional Tier 1 capital or Tier 2 capital.**
4. **No claim on an unrated bank or securities firm shall be assigned a risk weight lower than the risk weight assigned to a claim on the central government of the country in which the bank or securities firm is incorporated.**
5. **Claims with an original maturity of three months or less, excluding a claim which is renewed or rolled resulting in an effective maturity of more than three months.**
6. **Provided that such firms are subject to supervisory and regulatory arrangements comparable to banks in the Republic, including, in particular, risk-based capital requirements and regulation and supervision on a consolidated basis. Otherwise a securities firm shall be regarded as a corporate entity.**";

(e) by the substitution in subregulation (6) for paragraph (b) of the following paragraph:

"(b) Subject to the provisions of subparagraph (v) below, in the case of an exposure that meets all the respective requirements and criteria specified in subparagraphs (i) to (iv) below, which exposure shall be regarded as forming part of the bank's retail portfolio, excluding any exposure that is overdue, at a risk weight of 75 per cent.

(i) Criteria relating to orientation

The exposure shall relate to-

(A) an individual person or persons; or

(B) to a small or medium sized entity or business, as envisaged in subparagraph (v)(A) below.

(ii) Criteria relating to the product

The exposure shall be in the form of-

(A) a revolving credit exposure or line of credit, including exposures relating to credit cards and overdraft facilities;

(B) a personal term loan or lease, including instalment loans, vehicle finance and leases, student and educational loans and personal finance; or

(C) a small business facility or commitment, as envisaged in subparagraph (v)(A) below,

provided that the exposures specified below shall at no stage form part of a bank's retail portfolio envisaged in this paragraph (b).

(i) Securities such as bonds and equities, whether listed or unlisted;

(ii) Any derivative instrument or exposure; and

(iii) Residential mortgage loans that qualify for inclusion in the category of claims secured by residential property.

(iii) Criteria relating to granularity

In order to ensure that the retail portfolio of the reporting bank is sufficiently diversified, no aggregated exposure to a counterparty shall exceed 0.2% of the aggregate amount relating to the bank's retail portfolio.

For the purposes of this subparagraph (iii)-

(A) aggregated exposure means the relevant gross amount of all forms of debt included in the retail portfolio before any form of credit risk mitigation has been taken into consideration;

(B) the bank shall calculate the relevant gross amount after applying all relevant credit conversion factors related to off-balance sheet items;

(C) counterparty means one or more persons or entities that may be considered a single beneficiary, including small businesses affiliated to one another; and

(D) all retail exposures that are overdue as envisaged in paragraph

(e) below shall be excluded from the aggregate amount when the bank calculates the said granularity of the retail portfolio.

(iv) Low value of individual exposures

An exposure to an individual person or small business shall be included in the retail portfolio only when the aggregate amount of the said exposure after the application of the relevant credit conversion factors but before the effect of any risk mitigation is taken into consideration, is less than or equal to such an amount as may be specified in writing by the Authority from time to time.

(v) When the exposure-

(A) relates to an entity, institution or person with an outstanding exposure of less than or equal to such amount as may be directed in writing by the Authority, and complies with such further conditions as may be directed in writing by the Authority, the bank's exposure to that entity, institution or person shall be regarded as a retail small and medium entity (SME) exposure to which the bank shall assign a risk weight of 75 per cent;

(B) arises from obligors who qualify as transactors, that is, when any outstanding balance has been repaid in full at each relevant scheduled repayment date for the previous 12 months in relation to a facility such as a credit card facility, or when no drawdowns have been made over the previous 12 months in respect of an overdraft facility, such retail exposures may be risk-weighted at 45%;

(C) relates to lending secured by mortgage on an occupied urban residential dwelling or occupied individual sectional title dwelling or similar exposure to residential real estate, the bank shall treat that exposure in accordance with the relevant requirements specified in paragraph (c) below;

(D) is unhedged from a borrower's currency risk perspective, that is, the borrower has no natural or financial hedge against the exposure to foreign exchange risk arising from any currency mismatch between the currency of the borrower's source(s) of income and the currency of the loan, the bank shall multiply the risk weight specified in this paragraph (b) with 1.5, provided that for purposes of this paragraph (b)-

(i) a natural hedge means the borrower, in its normal operating procedures, receives income in foreign currency, such as, for example, in the form of remittances, rental income or salaries, that matches the currency of the relevant loan;

(ii) a financial hedge includes a legal contract, such as, for example, a forward contract, with a financial institution;

(iii) and the application of the multiplier, natural or financial hedge shall be considered sufficient only when it covers at least 90% of the relevant loan instalment, regardless of the number of hedges.

(E) does not comply with all the requirements specified in this paragraph (b), the bank shall risk weight that exposure at no less than 100 per cent, in accordance with the relevant requirements specified in paragraph (j) below.";

(f) by the substitution in subregulation (6) for paragraph (c) of the following paragraph:

"(c) Subject to the provisions of subparagraph (xiv) below, in the case of lending secured by mortgage on an occupied urban residential dwelling or occupied individual sectional title dwelling or similar exposure to residential real estate, that is, an exposure secured by immovable property that has the nature of a dwelling and complies with all the respective requirements specified in relevant laws and regulations that enable the property to be occupied by the owner, or by another person with the consent of the owner, as a primary residence for residential housing purposes, when the exposure is not in default, and to the extent that the exposure complies with all the respective requirements and criteria respectively specified in subparagraphs (i) to (x) below, in accordance with the respective requirements specified in table 1 below, provided that when the relevant exposure does not comply with the requirements respectively specified in subparagraphs (i) to (x), the bank shall apply to that residential real estate exposure the relevant requirements specified in subparagraphs (xi) to (xiii) below.

Table 1

	Exposure amount[1; 2]					
Loan to Value (LTV)	LTV ≤ 50%	50% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 100%	LTV > 100%
Risk weight	20%	25%	30%	40%	50%	70%

1. **A bank shall not split the relevant exposure amount across two or more LTV or risk weight buckets, but shall, based upon the relevant LTV ratio calculated on the full exposure amount, determine the relevant related single specific risk weight that apply to that relevant residential real estate exposure.**
2. **In the case of an unhedged exposure in respect of which the lending currency differs from the currency of the borrower's source of income, the bank shall multiply the specified risk weight with 1.5, as envisaged in subparagraph (xiii).**

(i) Underwriting policies, processes, standards and procedures

As a minimum, the bank shall have in place robust underwriting policies, processes, standards and procedures with respect to the granting of residential real estate exposure, mortgage loans or similar exposures to residential property-

(A) that include and define appropriate metrices, such as, for example-

(i) the loan's debt service coverage ratio, to prevent over-indebtedness of the borrower, and specify all relevant or material required information in respect of the said metric;

(ii) appropriate loan-to-value (LTV) ratios;

(B) that include, among others-

(i) an assessment of the ability of the borrower to repay the loan, provided that when the prospect for servicing the relevant loan depends materially on the cash flows generated by the property securing the loan, rather than on the underlying capacity of the borrower to service the debt from other sources, and provided that the requirements specified in subparagraphs (xii) or (xiii) do not apply, the bank shall risk weight the relevant exposure in accordance with the requirements specified in subparagraph (xi) below;

(ii) effective procedures to verify the relevant required information related to income, and any other relevant financial information;

(C) that ensure, among others-

(i) effective collateral management;

(ii) the prudent use of mortgage insurance;

(iii) that mortgage insurance in no case serves as a substitute for sound underwriting practices applied by the bank;

(iv) that the bank's underwriting policies are sufficiently robust and remain appropriate when the repayment of the mortgage loan depends materially on the cash flows generated by the property, including relevant metrices, such as, for example, an occupancy rate of the property;

(ii) Finished property

The property securing the exposure shall be fully completed, provided that, subject to such additional requirements as may be specified in writing by the Authority, a bank may apply the risk weights specified in this paragraph (c) in respect of an exposure secured by residential property under construction or land upon which residential property would be constructed when the exposure relates to an individual.

(iii) Legal enforceability

The relevant collateral agreement and any potential claim on the property shall be legally enforceable in all relevant jurisdictions, and the legal process underpinning the collateral agreement shall enable the bank to realise the value of the property serving as collateral within a reasonable period of time.

(iv) Claims over the property

In respect of lending to the borrower, secured by mortgage, the bank shall hold a first lien mortgage or similar legally enforceable claim over the property, or the first lien or claim and any sequentially lower ranking lien(s) or claim(s), that is, there shall be no lien or claim with a ranking higher than the bank's claim against the relevant residential property, from any other bank or lender, provided that-

(A) in exceptional cases, subject to such further conditions as may be specified in writing by the Authority, when a subsequent junior lien or claim provides the bank with a claim for collateral that is legally enforceable and constitutes an effective credit risk mitigant, the relevant exposure related to that junior lien or claim held by another bank may also be risk weighted in accordance with the relevant requirements specified in this paragraph (c);

(B) in all relevant cases, the bank shall ensure that any relevant framework governing liens or claims over or encumbrance of the relevant property provides the bank holding the lien on or claim against the property, the right to initiate the sale of the property, independently from any other entity that may hold a lien on or claim over the property; and

(C) where the subsequent sale of the relevant property is not carried out by means of a public auction, the bank holding the senior lien or claim shall take all necessary and reasonable steps to obtain a fair market value or the best price that may reasonably be expected to be obtained in the circumstances when exercising its power of sale, that is, the bank holding the senior lien or claim to sell the property on its own shall not sell the relevant property at an unreasonable discounted value to the detriment of any person either holding a junior lien over the property or otherwise having a legal right in respect of that property;

(v) Prudent valuation of property

The bank shall ensure that all relevant loan-to-value (LTV) ratios, that is, the amount of the loan divided by the value of the property multiplied with one hundred, are calculated in a prudent manner, in accordance with the respective requirements specified below:

(A) The outstanding amount of the mortgage loan shall include any undrawn committed amount related to the loan, provided that-

(i) when the bank granted different loans secured by the same property and the respective loans are sequential in ranking order, that is, there is no intermediate lien from any other bank, the bank shall add together and risk-weight the respective components of the loan as a single exposure, when calculating the relevant required LTV ratio;

(ii) when the Authority approved in writing that a junior lien or claim held by a bank other than the bank holding the senior lien may also be risk weighted in accordance with the relevant requirements specified in this paragraph (c), the bank with the junior lien shall include in the relevant loan amount all other loans secured with liens of equal or higher ranking than the bank's lien or claim securing the loan for purposes of determining the relevant LTV bucket and the related risk weight for the junior lien.

When the bank has insufficient information for ascertaining the ranking of any other liens or claims held by any other person, the bank shall assume that those liens or claims rank senior to or pari passu with the junior lien or claim held by the bank.

(iii) the bank shall calculate the relevant loan amount gross of any relevant credit impairment or provision and any relevant credit risk mitigation, unless the bank holds deposits that meet all the respective requirements specified in these Regulations for set-off or on-balance sheet netting, which deposits have been pledged unconditionally and irrevocably for the sole purpose of reducing the outstanding balance of the relevant mortgage loan;

(B) Unless directed otherwise in writing by the Authority, the bank shall maintain the value of the property as at the date of the relevant loan origination, provided that-

(i) the bank shall adjust the aforesaid value downwards when an extraordinary, idiosyncratic event occurs, resulting in a probable permanent reduction in the value of the property;

(ii) when the bank previously adjusted the property's value downwards, as envisaged in sub-item (i) hereinbefore, the bank may subsequently make an upward adjustment to the value of the property, but in no case to a value higher than the value of the property at origination;

(iii) the bank may take into consideration modifications made to the property after the date of origination of the loan that unequivocally increase the property's value;

(C) The value of the relevant property-

(i) shall be determined independently from the bank's mortgage acquisition, loan processing and loan decision process;

(ii) shall exclude any expectation related to price increases;

(iii) shall be market related;

(D) When a mortgage loan is financing the purchase of the relevant property, the value of the property for LTV purposes shall not be higher than the effective purchase price.

(E) The value of the property shall not depend materially on the performance of the borrower.

(vi) Documentation

The bank shall ensure that all the relevant information required at loan origination and for monitoring purposes is duly documented, including, as a minimum, all relevant required information related to-

(A) the ability of the borrower to repay the loan; and

(B) the valuation of the relevant property.

(vii) Credit risk mitigation in relation to LTV

The bank shall determine the appropriate LTV bucket and the related risk weight envisaged in this paragraph (c), prior to taking any credit risk mitigation into account, although the bank may thereafter take into consideration a guarantee, financial collateral or mortgage insurance that complies with the respective requirements related to eligible risk mitigation in relation to the bank's exposures secured by residential real estate when the bank eventually determines the relevant required amount of capital and reserve funds to be maintained by the bank.

(viii) Occupied

For purposes of this paragraph (c), only urban residential dwellings or individual sectional title dwellings that are occupied or intended to be occupied as the principal place of residence of either the borrower or, with the consent of the borrower, a person other than the borrower, shall be regarded as adhering to the requirement of being "occupied".

In this regard, although the intention of the borrower may be an important indicator, the purpose for which the dwelling is/will be utilised shall be determined with reference to objective factors and reasonability.

For example, the fact that the residence may be unoccupied for short periods of time, such as when the resident is on vacation, does not change the classification. On the other hand, a residence used mainly for purposes of vacation or to conduct business activities can clearly not be regarded as the principal place of residence.

(ix) Urban

For the purposes of this paragraph (c), urban area means an area inside the boundaries of any local government area fixed by law.

(x) Dwelling

For the purposes of this paragraph (c), dwelling means any building that-

(A) after its construction contains or will contain living rooms with a kitchen and the usual appurtenances and permanent provision for lighting, water supply, drainage and sewerage, whether such building is or is to be constructed as a detached or semi-detached building or is or is to be contained in a block of buildings;

(B) is designed and utilised or meant to be utilised for residential purposes; and

(C) is located in an area-

(i) in which the majority of the premises are residential premises; or

(ii) comprising at least 100 residential premises and which is defined for this purpose by means of cadastral boundaries, as shown on the compilation maps of the Surveyor General.

(xi) When the requirements specified in subparagraphs (i) to (x) hereinbefore are met, but the repayment of the loan or the prospect for recovery in the event of default depends materially on the cash flows generated by the relevant residential property securing the residential exposure, such as, for example, the cash flows generated by lease or rental payments, or the sale of the residential property, rather than on the underlying capacity of the borrower to repay the debt from other sources, the bank shall also have in place appropriately conservative matrices, such as, for example, a minimum occupancy rate in relation to the property, and the bank shall in such cases risk weight that residential real estate exposure in accordance with the requirements specified in table 2 below, instead of table 1 hereinbefore:

Table 2

	Exposure amount[1; 2]					
Loan to Value (LTV)	LTV ≤ 50%	50% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 100%	LTV > 100%
Risk weight	30%	35%	45%	60%	75%	105%

1. **A bank shall not split the relevant exposure amount across two or more LTV or risk weight buckets, but shall, based upon the relevant LTV ratio calculated on the full exposure amount, determine the relevant related single specific risk weight that apply to that relevant residential real estate exposure.**
2. **In the case of an unhedged exposure in respect of which the lending currency differs from the currency of the borrower's source of income, the bank shall multiply the specified risk weight with 1.5, subject to a maximum risk weight of 150%, as envisaged in subparagraph (xiii).**

(xii) In the case of exposure related to land acquisition, development and construction of residential real estate, the bank may risk weight those exposures at 100 per cent when the following criteria are met:

(A) the bank has in place robust and prudent underwriting standards that comply with the relevant requirements specified in subparagraph (i) hereinbefore; and

(B) written pre-sale or pre-lease contracts that are legally enforceable and that amount to a significant portion of total contracts are in place, and the relevant purchaser/renter has made a substantial cash deposit that is subject to forfeiture if the contract is terminated, or has substantial equity at risk, that is, borrower-contributed equity to the real estate's appraised as-completed value, is in place,

Provided that-

(i) for purposes of this subregulation (6)(c), exposure related to land acquisition, development and construction of residential real estate-

(aa) means loans to companies or special-purpose vehicles (SPVs) financing any land acquisition for development and construction purposes, or development and construction of any relevant residential property;

(bb) does not include the acquisition of forest or agricultural land, where there is no planning consent or intention to apply for planning consent; and

(ii) any relevant exposure related to land acquisition, development and construction of residential real estate that does not comply with the criteria specified hereinbefore shall be risk-weighted at 150 per cent;

(xiii) When the aforementioned residential real estate exposure is unhedged from a borrower's currency risk perspective, that is, the borrower has no natural or financial hedge against the exposure to foreign exchange risk arising from a mismatch between the currency of the borrower's source(s) of income and the currency of the loan, the bank shall multiply the relevant risk weight specified in this paragraph (c) with 1.5, subject to a maximum risk weight of 150%, provided that for purposes of this paragraph (c)-

(A) a natural hedge means the borrower, in its normal operating procedures, receives income in foreign currency, such as, for example, in the form of remittances, rental income or salaries, that matches the currency of the relevant loan;

(B) a financial hedge includes a legal contract, such as, for example, a forward contract, with a financial institution;

(C) and the application of the multiplier, natural or financial hedges envisaged in items (A) and (B) respectively shall be considered sufficient only when they cover at least 90% of the relevant loan instalment, regardless of the number of hedges.

(xiv) When a bank does not comply with all the respective requirements specified in subparagraphs (i) to (x) hereinbefore, and, in addition, the relevant residential real estate exposure does not fall within the ambit of any of the exposure types envisaged in subparagraphs (xi) to (xiii), the bank may risk weight the relevant residential real estate exposure based upon the risk weight of an unsecured exposure to the relevant counterparty, that is, for example, in the case of an exposure to an individual, the bank may apply a risk weight of 75 per cent, provided that when the Authority, in the Authority's sole discretion, determines that the risk weight of 75 per cent underestimates the bank's actual exposure to risk and is too low for specified types of residential real estate exposure which does not comply with all the respective requirements specified in subparagraphs (i) to (x) of this paragraph (c), the Authority may direct the bank in writing to risk weight the relevant residential real estate exposure at 150 per cent.";

(g) by the substitution in subregulation (6) for paragraph (d) of the following paragraph:

"(d) In the case of lending secured by mortgage on commercial real estate, including any exposure secured by immovable property other than exposure qualifying for inclusion in paragraph (c) as a residential real estate exposure, and to the extent that the bank complies with the respective requirements specified in paragraphs (c)(i) to (c)(vii), insofar as they are relevant, the bank shall risk weight that relevant exposure in accordance with the respective requirements specified in table 1 below, provided that when the exposure does not comply with the relevant requirements specified in paragraphs (c)(i) to (c)(vii) hereinbefore or the repayment of the loan depends materially on the cash flows generated by the relevant commercial real estate securing the loan, the bank shall apply to that commercial real estate exposure the relevant requirements and risk weights specified in subparagraphs (i) to (iii) below.

Table 1

Loan to Value (LTV)	LTV ≤ 60%	LTV > 60%
Risk weight	Min (60%, RW of counterparty)	RW of counterparty

(i) When the relevant requirements specified in paragraphs (c)(i) to (c)(vii) hereinbefore are met, insofar as they are relevant, except that the repayment of the loan or the prospects for recovery in the event of default depends materially on the cash flows generated by the relevant commercial real estate securing the exposure, such as, for example, the cash flows generated by lease or rental payments, or the sale of the commercial real estate or property, rather than on the underlying capacity of the borrower to repay the debt from other sources, the bank shall risk weight that relevant commercial real estate exposure in accordance with the requirements specified in table 2 below:

Table 2

Loan to Value (LTV)	LTV ≤ 60%	60% < LTV ≤ 80%	LTV > 80%
Risk weight	70%	90%	110%

(ii) In the case of exposure related to land acquisition, development and construction, other than for residential real estate purposes envisaged in paragraph (c)(xii), the bank shall risk weight the relevant exposure at 150%, provided that for purposes of this subregulation (6)(d), exposure related to land acquisition, development and construction of commercial property-

(aa) means loans to companies or special-purpose vehicles (SPVs) financing any land acquisition for development and construction purposes, or development and construction of any relevant commercial property;

(bb) does not include the acquisition of forest or agricultural land, where there is no planning consent or intention to apply for planning consent;

(iii) When a bank does not comply with all the respective requirements specified in paragraphs (c)(i) to (c)(vii), insofar as they are relevant, and, in addition, the relevant commercial real estate exposure does not fall within the ambit of exposure envisaged in subparagraphs (i) and (ii) hereinbefore and does not materially dependent on the cash flows generated by the property, the bank may risk weight the relevant commercial real estate exposure based upon the risk weight of an unsecured exposure to the relevant counterparty, that is, for example, in the case of an exposure to an SME, the bank may apply a risk weight of 85 per cent, provided that when the Authority, in the Authority's sole discretion, determines that the risk weight of the relevant counterparty underestimates the bank's actual exposure to risk and is too low for specified types of commercial real estate exposure which does not comply with all the respective requirements specified in paragraphs (c)(i) to (c)(vii), the Authority may direct the bank in writing to risk weight the relevant commercial real estate exposure at 150 per cent;

(h) by the substitution in subregulation (6) for paragraph (e) of the following paragraph:

"(e) In the case of an exposure, other than an exposure secured by residential real estate or mortgage on residential property as envisaged in paragraph (c), which exposure is in default-

(i) the bank shall risk weight the unsecured portion of the exposure, net of any relevant specific impairment, provision for loss or partial write-off, as follows:

(A) 150 per cent when the specific credit impairment in respect of the outstanding amount of the exposure is less than 20 per cent;

(B) 100 per cent when the specific credit impairment in respect of the outstanding amount of the exposure is equal to or more than 20 per cent;

(C) 50 per cent when the specific credit impairment in respect of the outstanding amount of the exposure is equal to or more than 50 per cent,

Provided that, in the case of retail exposures, the bank may apply the criteria related to default at the level of a particular credit obligation, instead of at the level of the relevant person or borrower, that is, a default by a borrower on one obligation does not necessarily mean that the bank has to treat all other relevant obligations of that person or borrower towards the bank or banking group of which the bank is a member, as being in default;";

(i) by the substitution in subregulation (6) for paragraph (f) of the following paragraph:

"(f) In the case of an exposure secured by residential real estate or mortgage on an occupied urban residential dwelling or occupied individual sectional title dwelling as envisaged in paragraph (c), which exposure is in default, the bank shall risk weight the exposure net of any relevant specific impairment, provision for loss or partial write-off at 100 per cent when the repayment of the loan does not materially depend on the cash flows generated by the property securing the exposure, provided that-

(i) the bank may take any relevant eligible risk mitigation into consideration in accordance with the relevant requirements specified in these Regulations;

(ii) in the case of residential real estate exposures, the bank may apply the criteria related to default at the level of a particular credit obligation, instead of at the level of the relevant person or borrower, that is, a default by a borrower on one obligation does not necessarily mean that the bank has to treat all other relevant obligations of that person or borrower towards the bank or banking group of which the bank is a member, as being in default.";

(j) by the substitution in subregulation (6) for paragraph (g) of the following paragraph:

"(g) In the case of any off-balance-sheet item or exposure, other than-

(i) a securities financing transaction that exposes the bank to counterparty credit risk, in respect of which the relevant credit equivalent amount shall be calculated in accordance with the relevant requirements related to-

(A) the internal model method set out in subregulation (19) when the bank obtained the relevant required prior written approval of the Authority; or

(B) in all other relevant cases, the comprehensive approach set out in subregulation (9)(b);

(ii) a derivative contract that exposes the bank to counterparty credit risk, in respect of which the relevant credit equivalent amount-

(A) shall be calculated in accordance with the relevant requirements related to the internal model method set out in subregulation (19) when the bank obtained the relevant required prior written approval of the Authority; or

(B) shall in all other relevant cases be calculated in accordance with the relevant requirements specified in subregulations (15) to (19);

(iii) posted collateral that is subject to the relevant requirements specified in subregulation (18) relating to the standardised approach for counterparty credit risk or in subregulation (19) relating to the internal model method for counterparty credit risk;

(iv) unsettled transactions or failed trades related to securities, commodities or foreign exchange, as envisaged in subregulation (20), the relevant exposure and related required amount of capital and reserve funds which shall be calculated in accordance with the relevant requirements specified in subregulation (20); or

(v) securitisation or resecuritisation exposure as envisaged in paragraph (h) below,

the bank shall convert the off-balance-sheet item or exposure into a credit exposure equivalent amount by multiplying the relevant item or exposure with the relevant credit-conversion factor specified in table 1 below:

Table 1

Description	**Credit conversion factor**
Any solicitation limit, that is, a facility not yet contracted	0 per cent
Such arrangements regarded by the Authority as not falling within the ambit of commitments as envisaged in these Regulations and that comply with specified requirements[1]	0 per cent
Any revocable commitment[2] unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in the relevant borrower's creditworthiness	10 per cent
Self-liquidating trade letters of credit with an original maturity of less than one year arising from the movement of goods, such as, for example, documentary credits collateralised by the underlying shipment, which credit conversion factor shall apply to both issuing and confirming banks	20 per cent[3]
Any irrevocable undrawn commitment not included in any other specified category assigned a lower or higher credit conversion factor	40 per cent
Drawn self-liquidating trade letters of credit arising from the movement of goods, that is, documentary credits collateralised by the underlying shipment, with an original maturity of one year or more	50 per cent
Performance related guarantees	50 per cent
Transaction-related contingent items, such as, for example, performance bonds, bid bonds, warranties and standby letters of credit	50 per cent
Irrevocable note issuance facilities and irrevocable revolving underwriting facilities	50 per cent
Any relevant repurchase agreement, resale agreement or asset sale with recourse in respect of which the credit risk exposure remains with the bank, which exposure amount shall be risk weighted based upon the relevant type of asset and not based upon the type of counterparty to the agreement or transaction	100 per cent
Any relevant exposure arising from a securities lending/borrowing transaction or the posting of securities as collateral, where the credit risk exposure related to the securities lent or posted as collateral remains with the bank	100 per cent
Any relevant exposure arising from a forward asset purchase, forward forward deposit or partly paid share or security- (a) that represent a commitment with certain drawdown; and (b) which exposure shall be risk weighted based upon the relevant type of asset and not based upon the type of counterparty to the relevant agreement or transaction	100 per cent
Direct credit substitutes such as, for example, general guarantees of indebtedness, including any standby letter of credit serving as a financial guarantee, and acceptances	100 per cent
Any relevant off-balance-sheet exposure rated by an eligible external credit assessment institution	100 per cent

1. As a minimum, such arrangements shall comply with the following requirements:

(a) the bank shall not receive any fees or commissions to establish or maintain the relevant arrangement;

(b) the arrangement shall relate to a corporate or SME as envisaged in these Regulations;

(c) the corporate or SME shall be required to apply to the bank for the initial and each

subsequent drawdown;

(d) the bank shall have full authority, regardless of the fulfilment by the relevant corporate or SME of the conditions set out in any relevant facility documentation, over the execution of each drawdown;

(e) the bank's decision on the execution of each drawdown shall be made only after assessing the creditworthiness of the relevant corporate or SME immediately prior to drawdown;

(f) the relevant corporate or SME shall be closely monitored by the bank on an ongoing basis; and

(g) the bank shall continuously comply with such further requirements as may be specified in writing by the Authority.

2. Revocable commitment includes an obligation of the reporting bank which may be cancelled at the discretion of the bank without prior notice or which provide for automatic cancellation due to deterioration in the creditworthiness of the obligor. Refer to the relevant definition contained in regulation 67.

3. Relates to issuing and confirming banks.";

(k) by the substitution in subregulation (6) for paragraph (j) of the following paragraph:

"(j) In the case of all other exposures, in accordance with the relevant requirements specified in table 1 below:

Table 1

Risk weight	**Transactions with the following counterparties, including assets**
0%	**<u>Transactions with the following counterparties</u>** Central government of the RSA, provided that the relevant exposure is repayable and funded in Rand Reserve Bank, provided that the relevant exposure is repayable and funded in Rand Corporation for Public Deposits, provided that the relevant exposure is repayable and funded in Rand Bank for International Settlements (BIS) International Monetary Fund (IMF) European Central Bank (ECB) European Stability Mechanism (ESM) European Financial Stability Facility (EFSF) European Union World Bank Group, including the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) Multilateral Investment Guarantee Agency (MIGA) International Development Association (IDA) Asian Development Bank (ADB) African Development Bank (AfDB) European Bank for Reconstruction and Development (EBRD) Inter-American Development Bank (IADB) European Investment Bank (EIB) European Investment Fund (EIF) Nordic Investment Bank (NIB) Caribbean Development Bank (CDB)

Risk weight	Transactions with the following counterparties, including assets
	Islamic Development Bank (IDB)
	Council of Europe Development Bank (CEDB)
	International Finance Facility for Immunization (IFFIm)
	Asian Infrastructure Investment Bank (AIIB)
	Intragroup bank balances[1]
	Intragroup balances with other formally regulated financial entities with capital requirements similar to these Regulations[1]
	Intragroup balances with branches of foreign banks
	Assets
	Cash and cash equivalents such as gold bullion owned by the bank

1. **Provided that-**
   (a) **the relevant entity is managed as an integrated part of the relevant banking group;**
   (b) **the relevant entity is consolidated in accordance with the relevant requirements specified in regulation 36;**
   (c) **capital resources are freely transferable between the relevant entity and the relevant parent bank or controlling company.**

Risk weight	Transactions with the following counterparties, including assets
20%	**Transactions with the following counterparties**
	RSA public-sector bodies, excluding exposures to the central government, SA Reserve Bank and the Corporation for Public Deposits when the said exposure is repayable and funded in Rand
	Banks in the RSA, provided that the claim on the bank has an original maturity of three months or less and is denominated and funded in Rand, excluding any claim on a RSA bank that is renewed or rolled resulting in an effective maturity of more than three months
	A securities firm in the RSA, provided that such a firm is subject to comparable supervisory and regulatory arrangements than banks in the RSA, including, in particular, risk-based capital requirements and regulation and supervision on a consolidated basis and the claim on the securities firm has an original maturity of three months or less and is denominated and funded in Rand, excluding any claim on a securities firm in the RSA that is renewed or rolled resulting in an effective maturity of more than three months
	Assets
	Cash items in process of collection
100%	**Transactions with the following counterparties or assets**
	An investment in a significant minority or majority owned or controlled commercial entity, which investment amounts to

	less than 15 per cent of the issued common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds of the reporting bank, as reported in items 41, 65 and 78 of form BA 700 Any other exposure to a counterparty or asset not specifically covered elsewhere in paragraphs (a) to (i) hereinbefore, or in this paragraph (j)
	<u>Assets</u>
150%[1]	Subordinated debt or any other type of instrument that meets the requirements specified in the Act read with the Regulations, related to qualifying tier 2 capital or any relevant other TLAC liability, other than- a) instruments to be risk weighted at 250%; b) speculative unlisted equity to be risk weighted at 400%; or c) any other asset or instrument directed in writing by the Authority to be assigned a risk weight higher than 150%, respectively envisaged below, issued by any corporate entity or person, or any bank
250%[1; 2]	Equity or any other type of instrument that meets the requirements specified in the Act read with the Regulations, related to qualifying common equity tier 1 capital or additional tier 1 capital, other than speculative unlisted equity envisaged below, issued by any corporate entity or person, or any bank
400%[1; 3]	Speculative unlisted equity acquired or held for short-term resale purposes or that constitutes venture capital or any similar investment subject to price volatility and acquired in anticipation of significant future capital gain, held in any unlisted company
150% or higher[4]	Any other asset or instrument specified in writing by the Authority
Risk weight	**<u>Transactions with the following counterparties, including assets</u>**
	Equity investments in funds[5]

1. **Provided that such instruments are not deducted from capital and reserve funds or risk-weighted at 250% in accordance with the relevant requirements specified in regulation 38(5).**
2. **The specified risk weight will be phased-in over 4 years, from 160% for the calendar year 2025 and be increased by 30 percentage points at the end of 2025 and each calendar year thereafter up to 250% from 2028 onwards.**
3. **The specified risk weight will be phased-in over 4 years, from 220% for the calendar year 2025 and be increased by 60 percentage points at the end of 2025 and each calendar year thereafter up to 400% from 2028 onwards.**
4. **As may be specified in writing by the Authority.**
5. **In accordance with the relevant requirements specified in regulation 31.**

Risk weight	**<u>Transactions with the following counterparties, including assets</u>**
1250%	A first-loss position, including a credit enhancement facility in respect of a securitisation or resecuritisation scheme The relevant amount up to a materiality threshold specified in a guarantee or credit-derivative contract, which materiality threshold either reduces the amount of payment or requires a given amount of loss to occur for the account of the protection buyer before the protection seller is obliged to make payment to the said protection buyer The excess amount relating to a significant investment, that is, a shareholding of 20 per cent or more, in a commercial entity, which investment is equal to or exceeds 15 per cent of the issued common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds of the reporting bank, as reported in items 41, 65 and 78 of the form BA 700 The relevant excess amount when the aggregate amount of significant investments, that is, a shareholding of 20 per cent or more, in commercial entities, exceeds 60 per cent of the sum of the issued common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds of the reporting bank, as reported in items 41, 65 and 78 of the form BA 700 Credit protection provided, which credit protection has a long-term rating of B+ or below or a short-term rating other than A-1/P-1, A-2/P-2 or A-3/P-3 Any unrated position in a rated structure relating to credit protection provided in terms of a credit-derivative instrument In the case of a synthetic securitisation scheme, any retained position that is unrated or rated below investment grade The net amount, that is, the amount after any specific credit impairment or provision, and any deduction directly against common equity tier 1 or additional tier 1 capital and reserve funds, have been taken into account, in respect of any credit enhancing interest-only strip relating to a securitisation transaction

";

(l) by the substitution in subregulation (7) for the words preceding paragraph (a) of the following words:

"Credit risk mitigation relates to the reduction of a bank's credit risk exposure by obtaining, for example, eligible collateral or guarantees or entering into a netting agreement with a client that maintains both debit and credit balances with the reporting bank.

When a bank that adopted the simplified standardised approach for the calculation of the bank's credit exposure in respect of positions held in its banking book obtains eligible collateral or guarantees, a reduction in the credit risk exposure arising from a position held in the banking book of the bank shall be allowed to the extent that the bank achieves an effective and verifiable transfer of risk, provided that when the bank is unable to comply with all the relevant disclosure requirements that may be specified from time to time, the Authority may direct the bank in writing to limit the reduction in the bank's exposure to credit risk to such an extent as may be directed in writing by the Authority.

A bank shall ensure that the effect of credit risk mitigation is in no case double-counted, that is, the bank shall, for example, disregard the effect of credit risk mitigation when the risk weight or any risk component of any relevant underlying exposure already reflects the effect of that risk mitigation.

No transaction in respect of which the reporting bank obtained credit protection shall be assigned a risk weight higher than the risk weight that applies to a similar transaction in respect of which no credit protection was obtained.";

(m) by the substitution in subregulation (7)(a) for subparagraph (i) of the following subparagraph:

"(i) shall have a well-founded legal basis for concluding that the netting or offsetting agreement is enforceable in each relevant jurisdiction, regardless of whether the counterparty is insolvent or bankrupt;";

(n) by the substitution in subregulation (7)(b)(i) for the words immediately following item (B) of the following words:

"the bank may in the calculation of its required amount of capital and reserve funds in terms of the provisions of subregulation (6) recognise the effect of such collateral in accordance with the relevant requirements specified in this paragraph (b).";

(o) by the substitution in subregulation (7)(b)(iii)(A) for subitem (ii) of the following subitem:

"(ii) that the bank complies with the relevant requirements relating to disclosure, specified in regulation 43 or directed in writing by the Authority from time to time;";

(p) by the substitution in subregulation (7)(b) for subparagraph (v) of the following subparagraph:

"(v) Risk weighting

For the protected portion of a credit exposure, a bank may substitute the risk weight of the counterparty or underlying exposure with the risk weight related to the collateral, subject to a minimum risk weight of 20 per cent, except in the cases specified below when a lower risk weight may apply.

A bank shall apply the said lower risk weight relating to collateral to the outstanding amount of the relevant protected exposure.";

(q) by the substitution in subregulation (7)(b)(vi)(D) for subitem (iii) of the following subitem:

"(iii) The transaction shall be an overnight transaction, or both the exposure and the collateral shall be marked to market daily and shall be subject to daily remargining.";

(r) by the substitution in subregulation (7)(b)(vi)(D) for subitem (vi) of the following subitem:

"(vi) The documentation covering the agreement shall be standard market documentation for repurchase or resale agreements or transactions.";

(s) by the substitution in subregulation (7)(b)(vi)(D)(ix) for sub-sub-item (hh) of the following sub-sub-item:

"(hh) any relevant qualifying central counterparty approved in writing by the Authority.";

(t) by the substitution in subregulation (7)(c) for subparagraph (i) of the following subparagraph:

"(i) Risk weighting

When a bank obtains protection against loss relating to an exposure or potential exposure to credit risk in the form of an eligible guarantee, the risk weight applicable to the guaranteed transaction or guaranteed exposure may be reduced to the risk weight applicable to the guarantor in accordance with the provisions of this paragraph (c), provided that the credit quality of the protected credit exposure shall not have a material positive correlation with the credit quality of the relevant guarantor.

The lower risk weight of the guarantor shall apply to the outstanding amount of the exposure protected by the guarantee, provided that all the requirements set out in this paragraph (c) are met.";

(u) by the substitution in subregulation (7)(c) for subparagraph (ii) of the following subparagraph:

"(ii) Proportional cover

When-

(A) a bank obtains a guarantee for less than the amount of the bank's exposure to credit risk; or

(B) losses are shared pari passu on a pro rata basis between the bank and the guarantor,

the bank shall recognise the credit protection on a proportional basis, that is, the protected portion of the exposure shall be risk weighted in accordance with the relevant provisions of this paragraph (c) and the remainder of the credit exposure shall be regarded as unsecured.";

(v) by the insertion in subregulation (7)(c)(iv)(A) of the following subitem after subitem (ii):

“(iii) that the bank complies with the relevant requirements relating to disclosure, specified in regulation 43 or directed in writing by the Authority from time to time.”;

(w) by the substitution in subregulation (7)(c)(iv)(B) for subitem (v) of the following subitem:

“(v) Irrevocable

Other than the reporting bank's non-payment of money due in respect of the guarantee, there shall be no clause in the contract that would allow the guarantor unilaterally to cancel the guarantee, to increase the effective cost of the protection or to change the contracted maturity *ex post*, due to a deterioration in the credit quality of the protected exposure.”;

(x) by the substitution in subregulation (7)(d) for subparagraph (i) of the following subparagraph:

“(i) When a bank obtains-

(A) multiple risk mitigation instruments that protect a single exposure, that is, the bank has obtained, for example, both collateral and a guarantee partially protecting an exposure; or

(B) protection with differing maturities,

the bank shall subdivide the exposure into the relevant portions covered by the relevant types of risk mitigation instruments.”;

(y) by the substitution in subregulation (8) for paragraph (a) of the following paragraph:

“(a) In the case of exposures to sovereigns, central banks, public-sector entities, banks, securities firms and corporate exposures, in accordance with the relevant provisions of table 1 read with the respective requirements specified in subparagraphs (i) to (iv) below:

Table 1

Claim in respect of-	**Credit assessment issued by eligible institutions[1]**					
	AAA to AA-	**A+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Below B-**	**Unrated**
Sovereigns (including the Central Bank of that particular country)	**Export Credit Agencies: risk scores[1]**					
	0-1	**2**	**3**	**4 to 6**	**7**	
	0%	20%	50%	100%	150%	100%
Public-sector entities	20%	50%	50%	100%	150%	50%

<table>
<tr><td>Multilateral development banks[2; 3]</td><td>20%</td><td>30%</td><td>50%</td><td>100%</td><td>150%</td><td>50%[4]</td></tr>
<tr><td>ECRA banks[5; 6; 9]</td><td>20%</td><td>30%</td><td>50%</td><td>100%</td><td>150%</td><td>See SCRA banks below</td></tr>
<tr><td>ECRA banks: short-term claims[5; 9; 10; 11]</td><td>20%</td><td>20%</td><td>20%</td><td>50%</td><td>150%</td><td>See SCRA banks below</td></tr>
<tr><td rowspan="2">SCRA banks[7; 8; 9]</td><td colspan="2">Grade A</td><td colspan="2">Grade B</td><td colspan="2">Grade C</td></tr>
<tr><td colspan="2">40%</td><td colspan="2">75%</td><td colspan="2">150%</td></tr>
<tr><td rowspan="2">SCRA banks: short-term claims[10]</td><td colspan="2">Grade A</td><td colspan="2">Grade B</td><td colspan="2">Grade C</td></tr>
<tr><td colspan="2">20%</td><td colspan="2">50%</td><td colspan="2">150%</td></tr>
<tr><td rowspan="2">ECRA securities firms[13]</td><td>AAA to AA-</td><td>A+ to A-</td><td>BBB+ to BBB-</td><td>BB+ to B-</td><td>Below B-</td><td>Unrated</td></tr>
<tr><td>20%</td><td>30%</td><td>50%</td><td>100%</td><td>150%</td><td>See ECRA banks</td></tr>
<tr><td>ECRA securities firms: short-term claims[13]</td><td>20%</td><td>20%</td><td>20%</td><td>50%</td><td>150%</td><td>See ECRA banks</td></tr>
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<tr><td colspan="2">20%</td><td colspan="2">50%</td><td colspan="2">150%</td></tr>
<tr><td rowspan="2">ECRA corporate entities[14; 15; 17]</td><td>AAA to AA-</td><td>A+ to A-</td><td>BBB+ to BBB-</td><td>BB+ to BB-</td><td>Below BB-</td><td>Unrated</td></tr>
<tr><td>20%</td><td>50%</td><td>75%</td><td>100%</td><td>150%</td><td>100%</td></tr>
<tr><td rowspan="2">SCRA corporate entities[14; 16; 17]</td><td colspan="2">Investment grade</td><td colspan="2">Corporate SMEs</td><td colspan="2">Other</td></tr>
<tr><td colspan="2">65%</td><td colspan="2">85%</td><td colspan="2">100%</td></tr>
<tr><td rowspan="3">Banks and corporate entities</td><td colspan="6">Short-term credit assessment[1, 12, 18]</td></tr>
<tr><td colspan="2">A-1/P-1</td><td>A-2/P-2</td><td colspan="2">A-3/P-3</td><td>Other</td></tr>
<tr><td colspan="2">20%</td><td>50%</td><td colspan="2">100%</td><td>150%</td></tr>
</table>

1. **The notations used in this table relate to the ratings used by a particular credit assessment institution. The use of the rating scale of a particular credit assessment institution does not mean that any preference is given to a particular credit assessment institution. The assessments/ rating scales of other external credit assessment institutions or, in certain cases, Export Credit Agencies ("ECAs"), recognised as eligible institutions in South Africa, may have been used instead.**
2. **Means an institution created by a group of countries, and with memberships from several sovereign countries, that provides financing and professional advice for economic and social development projects.**
3. **Other than a multilateral development bank specified in subregulation (6)(j), risk weighted at zero per cent.**
4. **Including exposures of banks incorporated in jurisdictions that do not allow external ratings for regulatory purposes to multilateral development banks, that is, banks incorporated in jurisdictions that do not allow external ratings for regulatory purposes shall risk weight their exposures to multilateral development banks, other than multilateral development banks specified in subregulation (6)(j) to be risk weighted at zero per cent, at 50 per cent.**
5. **Include any claim on or exposure to any financial institution licensed to take deposits from the public and that is subject to prudential regulation and supervision similar to an institution registered in terms of the Banks Act, 1990 to conduct the business of a bank, including loans and senior debt instruments, but not any form of subordinated debt as envisaged in subregulation (6)(j), regulations 31 and 38, or otherwise included in the definition of Common**

Equity Tier 1 capital, Additional Tier 1 capital or Tier 2 capital.

6. **In accordance with the respective requirements specified in this table 1 read with subparagraph (i) below.**
7. **In accordance with the respective requirements specified in this table 1 read with subparagraph (ii) below.**
8. **A SCRA bank shall classify all relevant bank exposures into one of the three specified risk-weight buckets, that is, Grade A, Grade B or Grade C, and assign to the relevant exposure the corresponding specified risk weight in accordance with the respective requirements specified in table 1 read with subparagraph (iii) below.**
9. **With the exception of short-term self-liquidating letters of credit, no claim on an unrated bank shall be assigned a risk weighting lower than the risk weighting assigned to a claim on the central government of the country in which the bank is incorporated, provided that for purposes of this subregulation (8)(a) short-term self-liquidating letters of credit mean self-liquidating letters of credit with a maturity of less than one year.**
10. **Includes exposures to banks-**
    (a) with an original maturity of three months or less, excluding a claim which is renewed or rolled, resulting in an effective maturity of more than three months; or
    (b) arising from the movement of goods across national borders with an original maturity of six months or less, including on-balance-sheet exposures such as loans and off-balance-sheet exposures such as self-liquidating trade-related contingent items,
11. **When a short-term rating or assessment has been issued in respect of that specific short-term exposure, and that rating maps into a risk weight-**
    (a) lower than or identical to the risk weight specified in this table 1 for general short-term exposures, that short-term rating shall be used for the risk weighting of that specific exposure;
    (b) higher than the risk weight specified in this table 8 for general short-term exposures, the preferential treatment for that short-term interbank exposures specified in this table 8 for general short-term exposures cannot be applied, and all unrated short-term exposures shall be assigned that higher risk weight implied by the specific short-term rating.
12. **Refer to subregulation (5)(b)(iv). Only relates to exposures when no specific short-term assessment was issued.**
13. **Exposures to securities firms and other financial institutions may be treated in a manner similar to exposures to ECRA banks and SCRA banks respectively, provided that-**
    (a) such firms and other financial institutions shall in all material respects be subject to regulatory and supervisory arrangements equivalent to banks in the RSA, including, in particular, risk-based capital requirements, liquidity requirements and regulation and supervision on a solo and consolidated basis;
    (b) any securities firm or other financial institution that does not comply with the requirements specified in paragraph (a) hereinbefore shall for purposes of this subregulation (8) be regarded as a corporate entity.
14. **Exposure to corporate entities, institutions or persons includes any form of loan, bond, receivable or other similar form of credit exposure to incorporated entities, associations, partnerships, proprietorships, trusts, funds, insurance entities or companies, other entities with characteristics similar to the entities envisaged hereinbefore and any other financial corporate that does not meet the definition of exposures to banks, securities firms and other financial institutions, but does not include-**
    (a) any exposure or entity that falls within the ambit of any one of the other specified exposure classes;
    (b) subordinated debt or equities envisaged in regulations 31 and 38; and
    (c) any exposure to individuals.
15. **In accordance with the respective requirements specified in this table 1 read with subparagraph (iv) below.**
16. **In accordance with the respective requirements specified in this table 1 read with subparagraph (v) below.**
17. **Provided that no significant investment in a minority or majority owned or controlled commercial entity, which investment amounts to less than 15 per cent of the sum of a bank's issued tier 1 and tier 2 capital and reserve funds, as reported in items 41, 65 and 78 of the form BA 700, shall be assigned a risk weight lower than 100 per cent.**
18. **Refer to subregulation (5)(b)(iv). Only relates to claims against banks and corporate entities.**

(i) The category ECRA bank relates to exposures of the reporting bank to banks with external ratings issued by eligible institutions nominated by the reporting bank, when the reporting bank is incorporated in a jurisdiction that allows the use of external credit assessments or ratings issued by eligible institutions to determine the relevant minimum required amount of capital and reserve funds for purposes of prudential regulation and supervision, provided that-

(A) the bank shall perform robust due diligence in respect of its relevant exposures to banks, to ensure that the external ratings appropriately and conservatively reflect the creditworthiness of the bank's relevant bank counterparties;

(B) when the aforementioned due diligence analysis or assessment reflects higher risk characteristics than that implied by the external rating bucket of the relevant exposure, such as, for example, AAA to AA–; or A+ to A–; etc., the bank shall assign to that relevant exposure a risk weight at least one bucket higher than the risk weight specified hereinbefore in table 1 for that external rating;

(C) no due diligence analysis or assessment conducted by the bank can result in the allocation of a risk weight lower than the risk weight related to the relevant external rating specified hereinbefore in table 1.

(ii) The category SCRA bank relates to and includes-

(A) exposures of the reporting bank to other banks when the reporting bank is incorporated in a jurisdiction that does not allow the use of external credit assessments or ratings to determine the relevant minimum required amount of capital and reserve funds for purposes of prudential regulation and supervision;

(B) exposures of the reporting bank to other banks with an external rating issued by an eligible institution not nominated by the reporting bank, when the reporting bank is incorporated in a jurisdiction that allows the use of external credit assessments or ratings issued by eligible institutions to determine the relevant minimum required amount of capital and reserve funds for purposes of prudential regulation and supervision, which exposures shall for purposes of these Regulations be treated in a manner similar to exposures to banks that are unrated;

(C) exposures of the reporting bank to other banks that are unrated, when the reporting bank is incorporated in a jurisdiction that allows the use of external credit assessments or ratings issued by eligible institutions to determine the relevant minimum required amount of capital and reserve funds for purposes of prudential regulation and supervision; and

(D) exposures of the reporting bank to other banks with an external rating issued by an institution not regarded as an eligible institution.

(iii) In the case of a SCRA bank-

(A) Grade A includes exposures to counterparty banks-

(i) with adequate capacity to meet their financial commitments, including repayment of principal and interest, and in a timely manner, for the projected life of the relevant assets or exposures, and irrespective of the economic cycle or business conditions; and

(ii) that meet or exceed the published minimum regulatory requirements and buffers specified by their relevant national supervisors, which requirements are implemented in the jurisdiction where those counterparty banks are incorporated, except for bank-specific minimum regulatory requirements or buffers that may be imposed through supervisory actions, that is, a Pillar 2 add-on requirement, that may not be made public, provided that-

(aa) when any relevant minimum regulatory requirements and buffers, other than bank-specific minimum add-on requirements or buffers, are not publicly disclosed or not otherwise made available to the public by the relevant counterparty banks, those counterparty banks shall be classified as Grade B or lower;

(bb) when the bank determines as part of its due diligence analysis or assessment that a relevant counterparty bank does not meet the relevant criteria related to a Grade A bank, the bank shall classify the relevant exposures to the relevant counterparty bank as Grade B or Grade C, as the case may be.

Provided that when a counterparty bank has a CET1 capital adequacy ratio equal to or higher than 14 per cent and a Tier 1 leverage ratio equal to or higher than 5 per cent, the reporting bank may assign to its exposure to that bank without an external credit assessment or rating a risk weight of 30 per cent, instead of the 40 per cent risk weight specified in table 1.

(B) Grade B includes exposures to counterparty banks-

(i) with substantial credit risk, such as, for example, the said counterparty banks' repayment capacities are dependent upon stable or favourable economic or business conditions;

(ii) that meet or exceed the published minimum regulatory requirements, excluding any relevant buffers, specified by their respective national supervisors, which requirements are implemented in the jurisdiction where they are incorporated, except for bank-specific minimum regulatory requirements that may be imposed through supervisory actions, that is, a Pillar 2 add-on requirement, that may not be made public, provided that when any relevant specified minimum regulatory requirements, other than a bank-specific minimum add-on requirement, are not publicly disclosed or not otherwise made available to the public by the counterparty bank that counterparty bank shall be classified as Grade C;

(iii) that do not comply with the specified requirements for Grade A, unless the exposure meets the relevant requirements specified for Grade C, in which case the relevant exposure shall be included in Grade C.

(C) Grade C includes exposures to counterparty banks-

(i) with material risk of default and limited margins of safety, in respect of which adverse business, financial, or economic conditions are very likely to lead or have already led to an inability to meet their respective financial commitments, provided that-

(aa) when any of the triggers specified below is breached, the bank shall classify the relevant exposure to that counterparty bank as Grade C:

(i) the counterparty bank does not meet the criteria specified hereinbefore related to the published minimum regulatory requirements for a Grade B counterparty bank;

(ii) an external auditor has within the preceding 12 months issued an adverse audit opinion or has expressed substantial doubt in the financial statements or audited reports of that counterparty bank about the counterparty bank’s ability to continue as a going concern.

(D) in order to duly reflect transfer and convertibility risk, the bank shall apply to its relevant bank exposures a risk-weight floor, based upon the risk weight applicable to an exposure to the relevant sovereign of the country where the counterparty bank is incorporated when the exposure is not in the local currency of the jurisdiction of incorporation of the debtor bank and for a borrowing booked in a branch of the debtor bank in a foreign jurisdiction when the exposure is not in the local currency of the jurisdiction in which the relevant branch operates, provided that the aforesaid sovereign floor shall not apply to self-liquidating, trade-related contingent items that arise from the movement of goods when that exposure has a maturity of less than one year.

(iv) ECRA corporate exposures to entities, institutions or persons relate to all corporate exposure of banks incorporated in a jurisdiction that allows the use of external credit assessments or ratings issued by eligible institutions to determine the relevant minimum required amount of capital and reserve funds for purposes of prudential regulation and supervision, provided that-

(A) the bank shall in all relevant cases make a clear distinction between-

(i) general corporate exposures, which shall be risk weighted in accordance with the relevant requirements specified in this paragraph (a); and

(ii) exposures related to specialised lending that-

(aa) among others, meets the relevant requirements specified in subparagraph (vi) below; and

(bb) shall be risk weighted in accordance with the relevant requirements and ratings specified in table 1 hereinbefore, based upon the relevant *issue-specific* external rating, when such a rating is available, and not any issuer rating, provided that when no *issue-specific* external rating issued by an eligible institution is available, the bank shall risk weight the relevant specialised lending exposure in accordance with the requirements related to specialised lending set out in subparagraph (v) read with subparagraph (vi) below;

(B) banks that assign risk weights to their rated bank exposures envisaged in table 1 read with subparagraph (i) hereinbefore shall also assign risk weights for all their respective general corporate exposures, in accordance with the respective requirements specified in table 1 read with this subparagraph (iv);

(C) an exposure shall be regarded as rated from the perspective of the reporting bank only when the exposure is rated by an eligible credit assessment institution (ECAI) nominated by the bank, that is, the bank has informed the Authority of its intention to use the ratings of such ECAI for purposes of determining its relevant minimum required amount of capital and reserve funds, provided that-

(i) when an external rating exists but the credit rating agency is not an ECAI; or

(ii) when the rating has been issued by an ECAI that has not been nominated by the bank for purposes of determining its relevant minimum required amount of capital and reserve funds,

that exposure shall for purposes of these Regulations be regarded as unrated from the perspective of the reporting bank;

(D) the bank shall perform robust due diligence in respect of all its relevant corporate exposures, to ensure that the relevant external ratings appropriately and conservatively reflect the creditworthiness of the bank's relevant corporate counterparties;

(E) when the aforementioned due diligence analysis or assessment performed by the bank reflects higher risk characteristics than that implied by the external rating bucket of the relevant exposure in table 1, such as, for example, AAA to AA–; or A+ to A–; etc., the bank shall assign to that corporate exposure a risk weight at least one bucket higher than the risk weight specified hereinbefore in table 1 in relation to that specific external rating;

(F) no due diligence analysis or assessment conducted by the bank can result in the allocation of a risk weight lower than the risk weight related to the relevant external rating specified hereinbefore in table 1;

(G) unrated corporate exposures of a bank incorporated in a jurisdiction that allows the use of external credit assessments or ratings issued by eligible credit assessment institutions to determine the relevant minimum required amount of capital and reserve funds for purposes of prudential regulation and supervision shall in the case of-

(i) unrated exposures to corporate small and medium entities (SMEs) be risk weighted in accordance with the relevant requirements specified in subparagraph (v)(E) below;

(ii) unrated corporate exposures other than unrated exposures to corporate small and medium entities (SMEs) be risk weighted at 100 per cent, as set out in table 1 hereinbefore;

(v) SCRA corporate exposures to entities, institutions or persons relate to all corporate exposure of banks incorporated in a jurisdiction that does not allow the use of external credit assessments or ratings issued by eligible institutions to determine the relevant minimum required amount of capital and reserve funds for purposes of prudential regulation and supervision, provided that-

(A) the bank shall in all relevant cases make a clear distinction between-

(i) general corporate exposures, which shall be risk weighted in accordance with the relevant requirements specified in this paragraph (a); and

(ii) exposures related to specialised lending that, among others-

(aa) meets the relevant requirements specified in subparagraph (vi) below; and

(bb) shall be risk weighted in accordance with the relevant requirements specified in subparagraph (vi) below;

(B) banks that assign risk weights to their rated bank exposures envisaged in table 1 read with subparagraphs (ii) and (iii) hereinbefore shall also assign risk weights for all their respective general corporate exposures in accordance with the relevant requirements specified in table 1 hereinbefore read with this subparagraph (v);

(C) the reporting bank shall duly take into account the complexity of the relevant corporate entity, institution or person's business model, performance against industry and peers, and risks posed by the entity, institution or person's operating environment whenever the bank assesses that corporate exposure against the respective requirements specified in this subparagraph (v) for investment grade;

(D) the category "investment grade" shall only include corporate exposures to entities, institutions or persons-

(i) with adequate capacity to meet their financial commitments in a timely manner, and their ability to do so shall be assessed to be robust against adverse changes in the economic cycle and business conditions;

(ii) that either itself or its parent company has securities outstanding on a recognised securities exchange.

(E) in the case of an unrated corporate exposure to an entity, institution or person that is part of a group in respect of which the reported annual turnover or sales for that consolidated group is less than or equal to such amount as may be directed in writing by the Authority in respect of the most recent financial year, the bank's unrated corporate exposure to that entity, institution or person shall be regarded as a corporate small and medium entity (SME) exposure to which the bank shall assign a risk weight of 85 per cent, as set out in table 1 hereinbefore, provided that an exposure to a SME that does not meet the criteria specified hereinbefore, shall be assessed against the relevant criteria specified in subregulation (6)(b) read with paragraph (b) below, which category of exposures includes retail SME exposures and which shall be risk weighted at 75%.

(vi) When a corporate exposure meets some or all the criteria specified in this subparagraph (vi), either in legal form or economic substance, the bank shall treat that exposure as a specialised lending exposure:

(A) The exposure does not relate to real estate and falls within the ambit of any one of the following three categories of specialised lending:

(i) object finance, which:

(aa) is a method of funding related to the acquisition of equipment, such as, for example, ships, aircraft, satellites, railcars, or fleets, where the repayment of the loan is dependent upon the cash flows generated by the specific assets that have been financed and pledged or assigned as collateral to the relevant lender; and

(bb) shall for purposes of determining the bank's relevant minimum required amount of capital and reserve funds be risk-weighted at 100 per cent;

(ii) project finance, which:

(aa) is a method of funding in which the relevant lender relies primarily on the revenues generated by a single project, both as the relevant source of repayment and as security for the loan;

(bb) usually relates to the financing of large, complex and expensive installations, such as, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, media, and telecoms;

(cc) may take the form of financing the construction of a new capital installation, or the refinancing of an existing installation, with or without improvements; and

(dd) shall for purposes of determining the bank's relevant minimum required amount of capital and reserve funds be risk-weighted as follows:

(i) 130 per cent during the pre-operational phase; and

(ii) 100 per cent during the operational phase, that is, when the entity, institution or person that was specifically created to finance the project has a positive net cash flow that is sufficient to cover any remaining contractual obligation and has declining long-term debt, unless the relevant exposure is of high quality and complies with all the respective requirements specified in sub-sub-item (ee) below, in which case the requirements of sub-sub-item (ee) shall apply;

(ee) shall for purposes of determining the bank's relevant minimum required amount of capital and reserve funds be risk-weighted at 80 per cent during the operational phase only when the exposure meets all the conditions specified below:

(i) The relevant project finance entity, institution or person meets its financial commitments in a timely manner and its ability to do so is assessed to be robust against adverse changes in the economic cycle and business conditions;

(ii) The relevant project finance entity, institution or person is restricted from acting to the detriment of its creditors, such as, for example, by not being able to issue additional debt without the consent of existing creditors;

(iii) The relevant project finance entity, institution or person has sufficient reserve funds or other financial arrangements in place to cover the contingency funding and working capital requirements of the project;

(iv) The revenues are availability-based or subject to a rate-of-return regulation or take-or-pay contract.

For purposes of this item (A) availability-based revenues mean that once construction is completed, the project finance entity, institution or person is entitled to payments from its contractual counterparties, such as, for example, the government, as long as contract conditions are fulfilled.

Typically, availability payments are sized to cover operating and maintenance costs, debt service costs and equity returns as the project finance entity operates the project.

Availability payments are not subject to swings in demand, such as traffic levels, and are adjusted typically only for lack of performance or lack of availability of the asset to the public.

(v) The project finance entity, institution or person's revenue depends on one main counterparty and that main counterparty is part of the central government, a public-sector entity or a corporate entity with a risk weight of 80 per cent or lower;

(vi) The contractual provisions governing the exposure to the project finance entity, institution or person provide for a high degree of protection for creditors in case of a default of the project finance entity, institution or person;

(vii) The main counterparty or other counterparties which similarly comply with the eligibility criteria for the main counterparty will protect the creditors from the losses resulting from a termination of the project;

(viii) All assets and contracts necessary to operate the project have been pledged to the creditors to the extent permitted by the relevant and/ or applicable law; and

(ix) Creditors may assume control of the project finance entity, institution or person in case of its default

(x) Such further conditions or requirements as may be directed in writing by the Authority.

(iii) commodities finance, which:

(aa) typically relates to short-term lending to finance, for example, reserves, inventories, or receivables of exchange-traded commodities, such as, for example, crude oil, metals, or crops, where the loan will be repaid from the proceeds of the sale of the commodity and the relevant borrower has no independent capacity to repay the loan; and (bb) shall for purposes of determining the bank's relevant minimum required amount of capital and reserve funds be risk-weighted at 100 per cent,

Provided that when the relevant exposure relates to real estate, the bank shall treat that exposure in accordance with the relevant requirements specified in paragraph (c) or paragraph (d), as the case may be.

(B) The exposure is typically to an entity, institution or person such as, for example, a special-purpose vehicle (SPV) or special-purpose entity (SPE) that was created specifically to finance and/or operate physical assets.

(C) The borrowing entity, institution or person has few or no other material assets or activities, and, as such, little or no independent capacity to repay the obligation, apart from the income that it receives from the asset(s) being financed, that is, the primary source for the repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of the relevant borrowing entity, institution or person.

(D) The terms of the obligation give the relevant lender a substantial degree of control over the asset(s) and the income that it generates.

(z) by the substitution in subregulation (8) for paragraph (b) of the following paragraph:

"(b) In the case of an exposure that meets the criteria specified in subregulation (6)(b), which exposure shall be regarded as forming part of the bank's retail portfolio, excluding any exposure that is overdue, in accordance with the relevant requirements specified in subregulation (6)(b).";

(aa) by the substitution in subregulation (8) for paragraph (c) of the following paragraph:

"(c) In the case of lending secured by mortgage on an occupied urban residential dwelling or occupied individual sectional title dwelling, or similar exposure to residential real estate, as envisaged in subregulation (6)(c), in accordance with the respective requirements and risk weights specified in subregulation (6)(c);";

(bb) by the substitution in subregulation (8) for paragraph (d) of the following paragraph:

"(d) In the case of lending fully secured by mortgage on commercial real estate, in accordance with the respective requirements and risk weights specified in subregulation (6)(d);";

(cc) by the substitution in subregulation (8) for paragraph (e) of the following paragraph:

"(e) In the case of exposures, other than exposures secured by residential real estate or a mortgage bond on residential property as envisaged in paragraph (c), which exposures are in default, in accordance with the relevant requirements specified in subregulation (6)(e);";

(dd) by the substitution in subregulation (8) for paragraph (f) of the following paragraph:

"(f) In the case of a loan fully secured by a mortgage bond on an occupied urban residential dwelling or occupied individual sectional title dwelling, as envisaged in paragraph (c), when the exposure is in default, in accordance with the relevant requirements specified in subregulation (6)(f);";

(ee) by the substitution in subregulation (8) for paragraph (j) of the following paragraph:

"(j) Unless specifically otherwise provided in this subregulation (8), in the case of all other relevant assets or exposures, including, in particular, equity, subordinated debt or any other instrument that meets the requirements specified in the Act read with the Regulations, related to qualifying common equity tier 1, addition tier 1 or tier 2 capital, or any relevant other TLAC liability, in accordance with the relevant provisions of and requirements specified in subregulation (6)(j) read with regulation 31 and regulation 38.";

(ff) by the substitution in subregulation (9) for the words preceding paragraph (a) of the following words:

"When a bank that adopted the standardised approach for the measurement of its exposure to credit risk in respect of positions held in its banking book obtains eligible collateral, guarantees or credit-derivative instruments, or enters into a netting agreement with a client that maintains both debit and credit balances with the reporting bank, a reduction in the credit risk exposure arising from a position held in the banking book of the bank shall be allowed to the extent that the bank achieves an effective and verifiable transfer of risk, provided that when the bank is unable to comply with all the relevant disclosure requirements that may be specified from time to time, the Authority may direct the bank in writing to limit the reduction in the bank's exposure to credit risk to such an extent as may be directed in writing by the Authority.

A bank shall ensure that the effect of credit risk mitigation is in no case double-counted, that is, the bank shall, for example, disregard the effect of credit risk mitigation when the risk weight or any risk component of any relevant underlying exposure already reflects the effect of that risk mitigation.

No transaction in respect of which the reporting bank obtained credit protection shall be assigned a risk weight higher than the risk weight that applies to a similar transaction in respect of which no credit protection was obtained.";

(gg) by the substitution in subregulation (9)(b) for subparagraph (i) of the following subparagraph:

"(i) When a bank's exposure or potential exposure to credit risk is secured by the pledge of eligible financial collateral, the bank may recognise the effect of such collateral-

(A) in the case of exposures held in the banking book, in accordance with either the simple approach or comprehensive approach, but not both approaches;

(B) in the case of OTC derivative transactions, in accordance with the comprehensive approach specified in this subregulation (9) read with the relevant requirements specified in subregulations (15) to (19);

(C) in the case of exposures held in the bank's trading book, in accordance with the comprehensive approach specified in this subregulation (9),

provided that-

(i) the bank shall comply with the relevant minimum requirements specified below;

(ii) when the bank decides to apply the simple approach for financial collateral, the bank may only recognise the effect of such collateral in cases where no maturity mismatch exists;

(iii) when the bank wishes to adopt the comprehensive approach the bank shall inform the Authority in writing of its decision, and comply with such further conditions as may be specified in writing by the Authority;

(iv) in all relevant cases, when the bank lends securities or post collateral, the bank shall calculate and maintain the relevant required amount of capital and reserve funds related to-

(aa) the credit risk and/ or market risk of the securities, if that risk remains with the bank; and

(bb) the counterparty credit risk arising from the risk that the borrower of the securities may default.

(v) when the bank lends or posts non-eligible instruments as collateral in the case of a securities financing transaction, the bank shall apply to the relevant exposure a haircut of 30 per cent;

(vi) when the bank borrows non-eligible instruments in the case of a securities financing transaction, the bank may not apply credit risk mitigation in respect of the relevant exposure in terms of the provisions of these Regulations.";

(hh) by the substitution in subregulation (9)(b) for subparagraph (ii) of the following subparagraph:

"(ii) Minimum requirements: general

A bank that adopted the standardised approach for the measurement of its exposure to credit risk shall in addition to the requirements specified in this subregulation (9), comply with-

(A) all the relevant requirements and conditions relating to eligible collateral specified in subregulation (7)(b); and

(B) the relevant requirements relating to disclosure, specified in regulation 43 or directed in writing by the Authority from time to time.";

(ii) by the substitution in subregulation (9)(b) for subparagraph (iii) of the following subparagraph:

"(iii) Eligible financial collateral: simple approach

For risk mitigation purposes, the instruments specified below shall be regarded as eligible collateral in terms of the simple approach, provided that, irrespective of its credit rating, a resecuritisation instrument shall in no case constitute an eligible instrument for risk mitigation purposes in terms of these Regulations.

(A) Cash, including certificates of deposit or comparable instruments issued by the reporting bank, on deposit with the bank that is exposed to credit risk.

When cash on deposit, certificates of deposit or comparable instruments issued by the lending bank are held as collateral at a third-party bank in a non-custodial arrangement, the bank may assign the risk weight related to the third-party bank to the exposure amount protected by the collateral, provided that-

(i) the cash/instruments are pledged/assigned to the lending bank;

(ii) the pledge/assignment is unconditional and irrevocable; and

(iii) the bank has applied the relevant haircut specified below in respect of any currency risk.

(B) Credit-linked notes issued by the reporting bank in order to protect an exposure in the banking book.

(C) Gold.

(D) In the case of a jurisdiction that allows the use of external ratings for purposes of calculating minimum required capital and reserve funds, debt securities rated by an eligible external credit assessment institution, which debt securities have been assigned the ratings specified below:

(i) BB- or better when issued by sovereigns or a public sector entity treated by the relevant national supervisor as sovereign exposure or equivalent to sovereign exposure.

(ii) BBB- or better when issued by other institutions, including banks and other prudentially regulated financial institutions, such as securities firms.

(iii) A-3/P-3 or better in respect of short-term debt instruments.

(E) In the case of a jurisdiction that allows the use of external ratings for purposes of calculating minimum required capital and reserve funds, debt securities not rated by an eligible external credit assessment institution, which debt securities-

(i) were issued by a bank; and

(ii) are listed on a licensed exchange; and

(iii) are classified as senior debt; and

(iv) all rated issues of the same seniority issued by the bank envisaged in subitem (i) have been rated at least BBB- or A-3/P-3 by an eligible external credit assessment institution, and the bank holding the securities as collateral has no information suggesting or justifying a rating lower than BBB- or A-3/P-3, as the case may be,

Provided that when the Authority is of the opinion that the aforementioned instruments are no longer sufficiently liquid, the Authority may determine that such instruments no longer qualify as eligible collateral.

(F) In the case of a jurisdiction that does not allow the use of external ratings for purposes of calculating minimum required capital and reserve funds:

(i) Debt securities issued by a sovereign or public sector entity treated by the relevant national supervisor as sovereign exposure or equivalent to sovereign exposure;

(ii) Debt securities issued by a bank included in Grade A under the category of SCRA banks in subregulation (8)(a);

(iii) Debt securities issued by an “investment grade” entity envisaged in table 1 in subregulation (8)(a) read with subregulation (8)(a)(v); and

(iv) Securitisation exposures assigned a risk weight lower than 100 per cent,

Provided that when the Authority is of the opinion that the aforementioned instruments are no longer sufficiently liquid, the Authority may determine that such instruments no longer qualify as eligible collateral.

(G) Equities, including convertible bonds, that are included in a main index.

(H) Undertakings for collective investments in transferable securities ("UCITS") and mutual funds, provided that-

(i) a price for the units is publicly quoted on a daily basis; and

(ii) the UCITS/mutual fund may only invest in the instruments specified in this subparagraph (iii).

(I) Securities issued by the Central Government of the RSA, provided that the reporting bank's exposure and the said securities are denominated in Rand.

(J) Securities issued by the Reserve Bank, provided that the reporting bank's exposure and the said securities are denominated in Rand.";

(jj) by the substitution in subregulation (9)(b)(iv)(A) for subitem (i) of the following subitem:

"(i) Equities and convertible bonds that are not included in a main index but are listed on a licensed exchange.";

(kk) by the substitution in subregulation (9)(b)(iv)(A) for subitem (ii) of the following subitem:

"(ii) UCITS/mutual funds which include the equities or convertible bonds specified in subitem (i) above.";

(ll) by the substitution in subregulation (9)(b) for subparagraph (v) of the following subparagraph:

"(v) Proportional cover

In respect of both the simple approach and the comprehensive approach for the recognition of risk mitigation, when-

(A) a bank obtained collateral of which the value is less than the amount of the bank's exposure to credit risk, or

(B) when losses are shared pari passu on a pro rata basis between the bank and the protection provider,

the bank shall recognise the credit protection on a proportional basis, that is, the protected portion of the exposure shall be risk weighted in accordance with the relevant requirements specified in this paragraph (b) and the remainder of the credit exposure shall be regarded as unsecured.

(mm) by the substitution in subregulation (9)(b)(vii) for item (B) of the following item:

"(B) shall in the calculation of the bank's adjusted exposure-

(i) make use of the haircut percentage specified in table 1 in subparagraph (xi) below, in order to adjust both the amount of the exposure and the value of the collateral; or

(ii) in the case of transactions subject to further commitment, that is, repurchase or resale agreements-

(aa) apply a haircut of zero per cent, provided that the bank complies with the minimum conditions relating to a haircut of zero per cent specified in subparagraph (xv) below;

(bb) recognise the effects of bilateral master netting agreements, provided that the bank complies with the minimum conditions relating to bilateral master netting agreements specified in subparagraph (xvi) below; or

(cc) apply the results of a VaR model approach to reflect the price volatility of the exposure and the collateral, provided that the bank complies with the minimum conditions relating to the VaR model approach specified in subparagraph (xvii) below.

Notwithstanding the choice made between the standardised approach and the foundation IRB approach for the measurement of the bank's exposure to credit risk, a bank shall use the standard haircut percentages specified in table 1 in subparagraph (xi) below.";

(nn) by the substitution in subregulation (9)(b) for subparagraph (viii) of the following subparagraph:

"(viii) Comprehensive approach: formula for the calculation of a bank's adjusted exposure in the case of a collateralised transaction

A bank-

(A) shall in the case of a collateralised transaction, other than a collateralised OTC derivative transaction, calculate its adjusted exposure through the application of the formula specified below, which formula is designed to take into account the effect of the collateral and any volatility in the amount relating to the exposure or collateral. The formula is expressed as:

$$E^* = \max \{0, [E \times (1 + He) - C \times (1 - Hc - Hfx)]\}$$

where:

E* is the amount of the exposure after the effect of the collateral is taken into consideration, that is, the adjusted exposure

E is the current value of the exposure before the effect of the collateral is taken into consideration

He is the relevant haircut that relates to the exposure

C is the current value of the collateral obtained by the bank

Hc is the haircut that relates to the collateral

Hfx is the haircut that relates to any currency mismatch between the collateral and the exposure

The haircut that relates to currency risk shall be 8 per cent, based on a ten-business day holding period and daily mark-to-market, as set out in subparagraph (xi)(D) below.

(B) shall in the case of a collateralised OTC derivative transaction, calculate its adjusted exposure in accordance with the relevant formula and requirements specified in subregulation (18) or (19), as the case may be.";

(oo) by the substitution in subregulation (9)(b) for subparagraph (ix) of the following subparagraph:

"(ix) Comprehensive approach: formula for the calculation of a bank's adjusted exposure when the effect of a master netting agreement is taken into consideration

A bank that applies the standard haircuts specified in subparagraph (xi) below in relation to its securities financing transactions and wishes to recognise the effects of bilateral master netting agreements, shall calculate its adjusted exposure through the application of the formula specified below, which formula includes the relevant current exposure, an amount for systematic exposure of the securities based upon the net exposure, an amount for the idiosyncratic exposure of the securities based upon the gross exposure, and an amount for currency mismatch, provided that the bank shall comply with the minimum requirements relating to bilateral netting agreements specified in subparagraph (xvi) below. The formula is expressed as:

$$E^* = max\left\{0; \sum_i E_i - \sum_i C_j + 0.4 \cdot net\,exposure + 0.6 \cdot \frac{gross\,exposure}{\sqrt{N}} + \sum_{fx}\left(E_{fx} \cdot H_{fx}\right)\right\}$$

where:

E* is the adjusted exposure value of the relevant netting set, after the effect of risk mitigation is taken into consideration

E_i is the relevant current value of all cash and securities lent, sold with an agreement to repurchase or otherwise posted to the counterparty under the netting agreement

C_j is the relevant current value of all cash and securities borrowed, purchased with an agreement to resell or otherwise held by the bank under the netting agreement

net exposure = $\left|\sum_s E_s H_s\right|$

gross exposure = $\sum_s E_s \left|H_s\right|$

E_S is the absolute value of each relevant security issuance under the relevant netting set

H_S is the relevant haircut that relates to E_S, that is-
H_S is a positive number when the security is lent, sold with an agreement to repurchase, or transacted in a manner similar to either securities lending or a repurchase agreement; and
H_S is a negative number when the security is borrowed, purchased with an agreement to resell, or transacted in a manner similar to either a securities borrowing or reverse repurchase agreement

N is the relevant number of security issues contained in the relevant netting set, provided that issuances in respect of which the value E_S is less than one tenth of the value of the largest E_S in the netting set shall be excluded from the count

E_{fx} is the relevant absolute value of the net position in each relevant currency *fx* that differs from the settlement currency

H_{fx} is the relevant haircut in respect of the currency mismatch of currency *fx*

The haircut that relates to currency risk shall be 8 per cent, based on a ten-business day holding period and daily mark-to-market, as set out in subparagraph (xi)(D) below.”;

(pp) by the deletion in subregulation (9)(b) of subparagraph (x);

(qq) by the substitution in subregulation (9)(b) for subparagraph (xi) of the following subparagraph:

“(xi) Comprehensive approach: standard haircuts

(A) Subject to the provisions of items (C) to (E) below, in the case of a jurisdiction that allows the use of external ratings for purposes of calculating minimum required capital and reserve funds, a bank that adopted the comprehensive approach shall in the calculation of its relevant adjusted exposure amounts after risk mitigation apply the respective haircuts specified in table 1 below in relation to the relevant collateral (Hc) and exposure (He), which haircuts are based on the presumption of daily mark-to-market, daily remargining and a 10-business day holding period, and are expressed as percentages:

Table 1: Standard haircut[1]

<table>
<tr><th>Issue rating in respect of debt securities</th><th>Residual maturity</th><th>Sovereigns[2]</th><th>Other issuers</th><th>Securitisation exposure[5]</th></tr>
<tr><td rowspan="5">AAA to AA-/A-1</td><td>≤ 1 year</td><td>0.5</td><td>1</td><td>2</td></tr>
<tr><td>> 1 year; ≤ 3 years</td><td rowspan="2">2</td><td>3</td><td rowspan="2">8</td></tr>
<tr><td>> 3 year; ≤ 5 years</td><td>4</td></tr>
<tr><td>> 5 year; ≤ 10 years</td><td rowspan="2">4</td><td>6</td><td rowspan="2">16</td></tr>
<tr><td>> 10 years</td><td>12</td></tr>
<tr><td rowspan="5">A+ to BBB-/ A-2/ A-3/ P-3 and unrated bank securities qualifying as eligible collateral in terms of the simple approach</td><td>≤ 1 year</td><td>1</td><td>2</td><td>4</td></tr>
<tr><td>> 1 year; ≤ 3 years</td><td rowspan="2">3</td><td>4</td><td rowspan="2">12</td></tr>
<tr><td>> 3 year; ≤ 5 years</td><td>6</td></tr>
<tr><td>> 5 year; ≤ 10 years</td><td rowspan="2">6</td><td>12</td><td rowspan="2">24</td></tr>
<tr><td>> 10 years</td><td>20</td></tr>
<tr><td>BB+ to BB-</td><td>All</td><td>15</td><td colspan="2">Not eligible</td></tr>
<tr><td rowspan="5">Securities issued by the Central Government of the RSA or the Reserve Bank</td><td>≤ 1 year</td><td colspan="3">1</td></tr>
<tr><td>> 1 year; ≤ 3 years</td><td colspan="3" rowspan="2">3</td></tr>
<tr><td>> 3 year; ≤ 5 years</td></tr>
<tr><td>> 5 year; ≤ 10 years</td><td colspan="3" rowspan="2">6</td></tr>
<tr><td>> 10 years</td></tr>
<tr><td colspan="2">Main index equities, including convertible bonds, and gold</td><td colspan="3">20</td></tr>
<tr><td colspan="2">Other equities and convertible bonds listed on a recognised exchange</td><td colspan="3">30[3]</td></tr>
<tr><td colspan="2">UCITS/ Mutual funds</td><td colspan="3">Highest haircut applicable to any security in which the fund may invest, unless the bank is able to apply the look-through approach (LTA) for equity investments in funds, in which case the bank may use a weighted average of haircuts applicable to instruments held by the fund.</td></tr>
<tr><td colspan="2">Eligible cash in the same currency[4]</td><td colspan="3">0</td></tr>
</table>

1. **Based on daily mark-to-market adjustments, daily remargining and a ten-business day holding period, expressed as a percentage.**
2. **Including multilateral development banks or public-sector entities that qualify for a risk weight of zero per cent.**
3. **Also relates to instruments that are not recognised as eligible collateral in respect of exposures included in the banking book but qualify as eligible collateral for repurchase or resale agreements included in the bank's trading book – refer to subparagraph (iv)(B) above.**
4. **Including cash collateral instruments qualifying as eligible collateral in terms of subparagraphs (iii)(A) and (iii)(B) above.**
5. **As defined in regulation 67 read with the exemption notice relating to securitisation schemes.**

(B) Subject to the provisions of items (C) to (E) below, in the case of a jurisdiction that does not allow the use of external ratings for purposes of calculating minimum required capital and reserve funds, a bank that adopted the comprehensive approach shall in the calculation of its relevant adjusted exposure amounts after risk mitigation apply the respective haircuts specified in table 1 below in relation to the relevant collateral (Hc) and exposure (He), which haircuts are based on the presumption of daily mark-to-market, daily remargining and a 10-business day holding period, and are expressed as percentages:

Table 1: Standard haircut[1]

<table>
<tr><th rowspan="2">Relevant instrument</th><th rowspan="2">Residual maturity</th><th colspan="3">Issuer’s risk weight[2]</th><th colspan="2">Other investment-grade securities[3]</th></tr>
<tr><th>0%</th><th>20% or 50%</th><th>100%</th><th>Non-securitisation exposures</th><th>Senior securitisation exposures with risk weight < 100%</th></tr>
<tr><td rowspan="5">Debt securities</td><td>≤ 1 year</td><td>0.5</td><td>1</td><td>15</td><td>2</td><td>4</td></tr>
<tr><td>> 1 year; ≤ 3 years</td><td rowspan="2">2</td><td rowspan="2">3</td><td rowspan="2">15</td><td>4</td><td rowspan="2">12</td></tr>
<tr><td>> 3 year; ≤ 5 years</td><td>6</td></tr>
<tr><td>> 5 year; ≤ 10 years</td><td rowspan="2">4</td><td rowspan="2">6</td><td rowspan="2">15</td><td>12</td><td rowspan="2">24</td></tr>
<tr><td>> 10 years</td><td>20</td></tr>
<tr><td colspan="2">Main index equities, including convertible bonds, and gold</td><td colspan="5">20</td></tr>
<tr><td colspan="2">Other equities and convertible bonds listed on a recognised exchange</td><td colspan="5">30</td></tr>
<tr><td colspan="2">UCITS/ Mutual funds</td><td colspan="5">Highest haircut applicable to any security in which the fund may invest, unless the bank is able to apply the look-through approach (LTA) for equity investments in funds, in which case the bank may use a weighted average of haircuts applicable to instruments held by the fund.</td></tr>
<tr><td colspan="2">Eligible cash in the same currency[4]</td><td colspan="5">0</td></tr>
<tr><td colspan="2">Other exposure types</td><td colspan="5">30</td></tr>
</table>

1. **Based on daily mark-to-market adjustments, daily remargining and a ten-business day holding period, expressed as a percentage.**
2. **Relates only to sovereigns and their central banks, including multilateral development banks or public-sector entities that qualify for a risk weight of zero per cent in terms of the provisions of subregulation (8).**
3. **As envisaged in subparagraph (iii)(F)(iii) hereinbefore.**
4. **Including cash collateral instruments qualifying as eligible collateral in terms of subparagraphs (iii)(A) and (iii)(B) above.**

(C) When a bank obtained collateral that consists of a basket of instruments, the haircut in respect of the basket of instruments shall be calculated in accordance with the formula specified below, which formula is designed to weight the collateral in the basket.

$$H = \sum a_i H_i$$

where:

a_i is the relevant weight of the asset, measured in terms of the relevant currency units, in the basket

H_i is the haircut applicable to the relevant asset

(D) When an exposure and the relevant collateral obtained by the bank are denominated in different currencies, the bank shall in addition to any haircut that may apply in terms of the provisions of item (A) or (B) above, apply a haircut for currency risk (H_{fx}) equal to 8% in respect of that relevant exposure, which haircut for currency risk is based on a 10-business day holding period and daily mark-to-market.

(E) Haircut floors in relation to specified securities financing transactions (SFTs)

(i) A bank shall in the case of-

(aa) any non-centrally cleared SFT in respect of which financing is provided, that is, when the bank lends cash against collateral, other than government securities, to counterparties not supervised by a regulator imposing prudential requirements similar to the relevant prudential requirements specified in these Regulations;

(bb) any relevant collateral upgrade transaction with a counterparty envisaged in sub-sub-item (aa) hereinbefore, that is-

(i) a transaction in terms of which the bank lends a security to its counterparty envisaged in sub-sub-item (aa) hereinbefore and that counterparty pledges as collateral a security of lower quality;

(ii) when the counterparty envisaged in sub-sub-item (aa) hereinbefore exchanges a lower quality security for a higher quality security of the bank,

apply the relevant haircut floors specified in table 1 in sub-item (ii) below or calculate the floor in accordance with the relevant formulae and requirements specified in sub-items (iii) and (iv) below, provided that-

(i) the respective requirements specified in this item (E) do not apply in relation to any jurisdiction that prohibits banks from conducting the transactions envisaged hereinbefore below the minimum haircut floors specified in subitem (ii) below;

(ii) the respective haircut floors envisaged and specified in this item (E) shall not apply to any SFT concluded with any central bank;

(iii) the respective haircut floors envisaged and specified in this item (E) shall not apply to any cash-collateralised securities lending transactions in respect of which securities are lent to the bank at long maturities and the lender of the securities reinvests the cash at the same or shorter maturity, therefore not giving rise to any material maturity or liquidity mismatch;

(iv) the respective haircut floors envisaged and specified in this item (E) shall not apply to any cash-collateralised securities lending transactions in respect of which securities are lent to the bank at call or at short maturities, giving rise to liquidity risk, when the lender of the securities reinvests the cash collateral into a reinvestment fund or account subject to rules or regulations complying with such requirements for reinvestment of cash collateral by securities lenders as may be directed in writing by the Authority;

(v) a bank that lends securities shall be exempted from the relevant haircut floors on collateral upgrade transactions envisaged hereinbefore when the bank demonstrates to the satisfaction of the Authority that it is unable to re-use, or provides appropriate assurance to the satisfaction of the Authority that the bank does not and will not reuse, the securities received as collateral against the securities lent.

(ii) Haircut floors in relation to specified SFTs

Table 1

Residual maturity of collateral	**Haircut level[1; 2]**	
	Corporate and other issuers	**Securitised products**
≤ 1 year debt securities, and floating rate notes (FRNs)	0.5%	1%
> 1 year, ≤ 5 years debt securities	1.5%	4%
> 5 years, ≤ 10 years debt securities	3%	6%
> 10 years debt securities	4%	7%
Main index equities	6%	
Other assets	10%	

1. Expressed as percentages.

2. **Any SFT that falls within the ambit of this item (E) but does not meet the relevant specified haircut floors shall be treated as an unsecured loan to the relevant counterparty, provided that, to determine whether a SFT or netting set of SFTs meets the relevant specified haircut floor requirements, the bank shall compare the collateral haircut H, real or calculated in accordance with the relevant requirements specified in subitem (iii) or (iv) below, as the case may be, and the relevant haircut floor f specified in table 1 hereinbefore.**

(iii) SFTs not included in a netting set

In the case of any relevant SFT not included in a netting set, the relevant values of H and f shall be computed as follows:

(aa) For a single cash-lent-for-collateral SFT, H and f are known since H is the amount of collateral received and f is specified in table 1 in subitem (ii) above, provided that for purposes of this calculation, collateral that is called by either counterparty can be treated as collateral received from the moment that it is called, that is, the treatment is independent of any relevant settlement period that may apply in relation to the collateral.

For example, in the case of a SFT that falls within the ambit of this item (E), when 100 cash is lent against 101 of corporate debt security with a 12-year maturity, H is 1% [(101-100)/100] and f is 4%, as specified in table 1 in subitem (ii) hereinbefore.

As such, that SFT shall be treated as an unsecured loan to the relevant counterparty.

(bb) In the case of a single collateral-for-collateral SFT, lending collateral A and receiving collateral B, H remains the amount of collateral received but the effective floor of the transaction must integrate the floor of the two types of collateral, and has to be computed in accordance with the formula specified below:

$$f = \left[\left(\frac{1}{1+f_A} \right) \Big/ \left(\frac{1}{1+f_B} \right) \right] - 1 = \frac{1+f_B}{1+f_A} - 1$$

and the result shall then be compared to the effective haircut of the transaction, that is:

$$\frac{C_B}{C_A} - 1$$

For example, in the case of a SFT that falls within the ambit of this item (E), when 102 of a corporate debt security with a 10-year maturity is exchanged against 104 of equity, the effective haircut H of the transaction is 104/102 – 1 = 1.96%, which has to be compared with the effective floor f of 1.06/1.03 – 1 =2.91%.

As such, the relevant SFT shall be treated as an unsecured loan to the relevant counterparty.

(iv) SFTs included in a netting set

In the case of all relevant trades for which the security received is included in table 1 in subitem (ii) hereinbefore, and in respect of which, within the relevant netting set, the bank is also a net receiver of that security, a bank shall compute an effective portfolio floor, that is, the weighted average floor of the portfolio, in accordance with the formula specified below, provided that, for purposes of the calculation, collateral that is called by either counterparty shall be treated as collateral received from the moment that it is called, that is, the required treatment shall be independent of any relevant settlement period that may apply in relation to the collateral:

$$f_{Portfolio} = \left[\left(\frac{\sum_s E_s}{\sum_s E_s \times (1 + f_s)} \right) \bigg/ \left(\frac{\sum_t C_t}{\sum_t C_t \times (1 + f_t)} \right) \right] - 1$$

where:

E_s is the relevant net position in each relevant security s, or cash, that is net lent

C_t is the net position that is net borrowed

f_s and f_t are the relevant haircut floors for the relevant securities that are net lent and net borrowed respectively

The portfolio does not breach the floor where:

$$\frac{\sum C_t - \sum E_s}{\sum E_s} \geq f_{Portfolio}$$

Provided that when the portfolio haircut does breach the floor, the bank shall, as stated hereinbefore, treat the relevant netting set of SFTs as unsecured loans to the relevant counterparty.";

(rr) by the deletion in subregulation (9)(b) of subparagraph (xii);

(ss) by the deletion in subregulation (9)(b) of subparagraph (xiii);

(tt) by the substitution in subregulation (9)(b) for subparagraph (xiv) of the following subparagraph:

"(xiv) Comprehensive approach: requirements related to adjustments for different

holding periods and non-daily mark-to-market or remargining

(A) The framework for collateral haircuts to be applied in terms of the provisions of these Regulations in respect of the comprehensive approach-

(i) distinguishes between-

(aa) repo-style transactions, that is, transactions such as repurchase or resale agreements, and securities lending or borrowing transactions;

(bb) other capital-market-driven transactions, that is, transactions such as OTC derivatives and margin lending; and

(cc) secured lending;

(ii) is summarised in table 1 below, also specifying the relevant respective minimum holding periods:

Table 1

Transaction type	**Minimum holding period**	**Condition**
Repo-style transaction	Five business days	Daily remargining
Other capital market transactions	Ten business days	Daily remargining
Secured lending	Twenty business days	Daily revaluation

(B) When-

(i) a bank entered into a transaction or has a netting set that meets the relevant criteria specified in subregulations (19)(e)(ii)(A) to (19)(e)(ii)(D), the relevant minimum holding period specified in table 1 shall be adjusted to be equivalent to the relevant margin period of risk envisaged in subregulation (19)(e)(ii);

(ii) the frequency of remargining or revaluation is longer than the minimum period specified in table 1 above, the relevant percentage in respect of the relevant specified minimum haircut shall be scaled up depending on the actual number of business days between remargining or revaluation, using the square root of time formula specified below:

$$H = H_{10}\sqrt{\frac{N_R + (T_M - 1)}{10}}$$

$\boldsymbol{T_M}$ where:

H is the relevant specified haircut

$\boldsymbol{H_{10}}$ is the relevant 10-business day minimum holding period haircut specified in subregulation (xi) hereinbefore in respect of the relevant specified instrument

$\boldsymbol{T_M}$ is the relevant minimum holding period for the type of transaction

$\boldsymbol{N_R}$ is the actual number of business days between remargining for capital market transactions or revaluation in respect of secured transactions

For example, when a bank calculates the volatility on a T_N day holding period which is different from the specified minimum holding period T_M, the bank shall calculate the relevant haircut H_M using the square root of time formula specified below:

$$H_M = H_N \sqrt{\frac{T_M}{T_N}}$$

where:

$\mathbf{H_M}$= the adjusted haircut

$\mathbf{T_N}$= holding period used by the bank for deriving H_N

$\mathbf{H_N}$= haircut based on the holding period T_N

Similarly, when the frequency of remargining or revaluation is longer than the minimum period specified in table 1 above, the relevant percentage in respect of the minimum haircut shall be scaled up depending on the actual number of business days between remargining or revaluation, using the relevant square root of time formula.

For example, based on the relevant specified square root of time formula, a bank that uses the standard haircuts specified in table 1 in subparagraph (xi) above shall use the relevant ten business day haircut percentages specified in the table as a basis in scaling the said haircut percentages up or down depending on the type of transaction and the frequency of remargining or revaluation, as specified below:

$$H = H_{10} \sqrt{\frac{N_R + (T_M - 1)}{10}}$$

where:

H = adjusted haircut

$\mathbf{H_{10}}$= the ten-business day standard haircut in respect of the instrument, specified in table 1 in subparagraph (xi) above

$\mathbf{N_R}$= the actual number of business days between remargining for capital market transactions or revaluation for secured transactions

$\mathbf{T_M}$= the minimum holding period for the type of transaction";

(uu) by the substitution in subregulation (9)(b)(xv) for the words preceding item (A) of the following words:

"In the case of any relevant securities financing transaction, a bank other than a bank that obtained the approval of the Authority to apply its VaR model to reflect price volatility as envisaged in subparagraph (xvii) below may apply a haircut of zero per cent, provided that-";

(vv) by the substitution in subregulation (9)(b)(xv) for item (C) of the following item:

"(C) the transaction shall be an overnight transaction or both the exposure and the collateral shall be marked to market on a daily basis and shall be subject to daily remargining;";

(ww) by the substitution in subregulation (9)(b)(xv)(I) for subitem (iv) of the following subitem:

"(iv) a bank or securities firm, provided that in the case of a securities firm the firm shall be subject to supervisory and regulatory arrangements comparable to banks in the Republic, including, in particular, risk-based capital requirements and regulation and supervision on a consolidated basis;";

(xx) by the substitution in subregulation (9)(b)(xv)(I) for subitem (vi) of the following subitem:

"(vi) a regulated mutual fund specified in writing by the Authority, provided that the said mutual fund shall be subject to capital or leverage requirements;";

(yy) by the substitution in subregulation (9)(b)(xv)(I) for subitem (viii) of the following subitem:

"(viii) a qualifying central counterparty specified in writing by the Authority;";

(zz) by the insertion in subregulation (9)(b)(xv) after item (I)(ix) of the following item:

"(J) any netting set that contains any transaction that does not meet the requirements specified hereinbefore shall not be eligible for a haircut of zero per cent.";

(aaa) by the substitution in subregulation (9)(b)(xvi) for the introductory words of item (A) of the following introductory words:

"(A) that concludes a securities financing agreement or transaction with a counterparty, which agreement or transaction is included in a bilateral master netting agreement, may recognise the effects of the bilateral master netting agreement, provided that the said netting agreement-";

(bbb) by the substitution in subregulation (9)(b)(xvi)(A) for subitem (i) of the following subitem:

"(i) shall be legally enforceable in each relevant jurisdiction upon the occurrence of an event of default, regardless of whether the counterparty is insolvent or bankrupt.

In cases of legal uncertainty, the reporting bank shall obtain a legal opinion to the effect that its right to apply netting of gross claims is legally well founded and would be enforceable in the liquidation, default or bankruptcy of the counterparty or the bank;";

(ccc) by the substitution in subregulation (9)(b)(xvi)(B) for subitem (i) of the following subitem:

"(i) all the relevant transactions shall be marked to market daily; and";

(ddd) by the substitution in subregulation (9)(b) for subparagraph (xvii) of the following subparagraph:

"(xvii) Comprehensive approach: Minimum conditions relating to the use of VaR models

As an alternative to the use of the standard haircuts specified in table 1 in subparagraph (xi) hereinbefore, a bank that obtained the prior written approval of the Authority to adopt the internal models approach for the measurement of the bank's exposure to market risk may use a VaR-models approach for the calculation of the counterparty credit risk requirement envisaged in subregulation (12)(b)(iii) related to single securities financing transactions or securities financing transactions covered by netting agreements on a counterparty-by-counterparty basis, to reflect the price volatility of the exposure and the collateral, and to also provide for correlation effects between security positions, and ultimately, to calculate the bank's adjusted exposure through the application of the formula specified below:

$E^* = \max \{0, [(\sum E - \sum C) + \text{VaR output from the internal model}]\}$

where:

E* is the adjusted exposure after the effect of risk mitigation is taken into consideration

E is the relevant current value of the exposure

C is the relevant value of the collateral

VaR is the previous business day's VaR amount

Provided that-

(A) subject to the prior written approval of and such conditions as may be specified in writing by the Authority, the bank may-

(i) instead of using the VaR approach, calculate an effective expected positive exposure for repo-style and other similar SFTs, in accordance with the relevant requirements specified in subregulation (19) related to the Internal Model Method;

(ii) also apply the VaR approach to margin lending transactions and other transactions similar to repo-style transactions or securities financing transactions;

(B) in the case of a securities financing transaction covered by a netting agreement, the relevant bilateral master netting agreement shall comply with the respective requirements specified in subparagraph (xvi) hereinbefore and any relevant requirements specified in subregulations (18) and (19) below;

(C) the underlying securities shall be unrelated to any securitisation scheme;

(D) in all cases the relevant collateral shall be revalued daily;

(E) a bank other than a bank that obtained the prior written approval of the Authority to adopt the internal models approach for the measurement of the bank's exposure to market risk may apply for the approval of the Authority to use its internal VaR models for the calculation of its exposure to counterparty credit risk and the related price volatility for SFTs, provided that-

(i) the bank's model shall comply with the relevant requirements specified in these Regulations and any relevant Prudential Standard issued from time to time related to the calculation of a bank's exposure to market risk in terms of the internal models approach;

(ii) notwithstanding anything stated to the contrary in any relevant Prudential Standard issued from time to time related to the calculation of a bank's exposure to market risk in terms of an internal models approach, the bank's VaR model calculation for the bank's relevant exposure to counterparty credit risk related to SFTs shall be based on a 99% confidence interval;

(iii) the bank's VaR model shall pass the relevant backtesting and profit and loss attribution tests specified in any relevant Prudential Standard issued from time to time related to the bank's exposure to market risk in terms of the internal models approach;

(iv) the requirements related to the default risk charge in terms of an internal models approach for market risk shall not apply in relation to the bank's VaR model for SFTs;

(F) the bank-

(i) shall at all times comply with the relevant model validation requirements and operational requirements specified in regulations 39(8) and in subregulation (19), and such further requirements as may be specified in writing by the Authority;

(ii) may in the case of margined securities financing transactions apply a minimum holding period of five business days instead of the 10-business day holding period that would otherwise apply, unless a five-business day holding period is inappropriate based on the liquidity of the instrument;

(G) when the bank entered into a repo-style or similar transaction or has a netting set that meets the relevant criteria specified in subregulation (19)(e)(ii), the relevant minimum holding period shall be adjusted to be equivalent to the relevant margin period of risk envisaged in subregulation (19)(e)(ii).";

(eee) by the substitution in subregulation (9)(c) for subparagraph (i) of the following subparagraph:

"(i) Minimum requirements

As a minimum, a bank that adopted the standardised approach for risk mitigation relating to guarantees shall comply with-

(A) the relevant minimum requirements specified in subregulation (7)(c) above;

(B) the relevant requirements relating to disclosure, specified in regulation 43 or directed in writing by the Authority from time to time; and

(C) such further conditions as may be specified in writing by the Authority.";

(fff) by the substitution in subregulation (9)(c) for subparagraph (ii) of the following subparagraph:

"(ii) Eligible guarantees/guarantors

For risk mitigation purposes in terms of these Regulations, credit protection obtained from guarantors that are assigned a risk weight lower than the protected exposure shall be recognised as eligible guarantees, including guarantees obtained from-

(A) sovereigns;

(B) central banks;

(C) public-sector entities;

(D) banks;

(E) multilateral development banks;

(F) securities firms;

(G) other prudentially regulated financial institutions with a risk weight lower than the protected exposure;

(H) in the case of a jurisdiction that allows the use of external ratings for purposes of calculating minimum required capital and reserve funds, other externally rated entities assigned a risk weight lower than the protected exposure;

(I) in the case of a jurisdiction that does not allow the use of external ratings for purposes of calculating minimum required capital and reserve funds, entities that comply with the relevant requirements related to and, as such, are included in the category "investment grade" envisaged in subregulation (8) hereinbefore,

Provided that-

(i) when credit protection is obtained in respect of a securitisation exposure, only credit protection obtained from entities externally rated BBB- or better at the end of the reporting month, and that were externally rated A- or better at the time that the credit protection was obtained, shall constitute eligible protection for purposes of these Regulations, including any relevant credit protection provided by a parent institution, subsidiary or affiliate companies;

(ii) for purposes of calculating the minimum required amount of capital and reserve funds of a branch in terms of the provisions of the Act read with these Regulations, no guarantee received from the parent foreign institution or any other branch or subsidiary of the parent foreign institution in respect of an exposure incurred by the branch in the Republic shall be regarded as an eligible guarantee;

(iii) the credit quality of the protected credit exposure shall not have a material positive correlation with the credit quality of the relevant guarantor.";

(ggg) by the substitution in subregulation (9)(c) for subparagraph (iv) of the following subparagraph:

“(iv) Materiality thresholds

For purposes of these Regulations, a materiality threshold below which no payment will be made by the guarantor in the event of a loss to the reporting bank or that reduces the amount of payment by the guarantor shall be regarded as equivalent to a retained first-loss position and shall be risk weighted in accordance with the relevant requirements specified in subregulation (6)(j) above.”;

(hhh) by the substitution in subregulation (9)(c) for subparagraph (v) of the following subparagraph:

“(v) Proportional cover

When-

(A) a bank obtains a guarantee for less than the amount of the bank’s exposure to credit risk; or

(B) losses are shared pari passu on a pro rata basis between the bank and the guarantor,

the bank shall recognise the credit protection on a proportional basis, that is, the protected portion of the exposure shall be risk weighted in accordance with the relevant requirements specified in this paragraph (c) and the remainder of the credit exposure shall be regarded as unsecured.”;

(iii) by the substitution in subregulation (9)(c)(vi) for the specified description related to the variable $\mathbf{H_{FX}}$ of the following description:

“$\mathbf{H_{FX}}$ is the haircut relating to the currency mismatch between the credit protection and the underlying obligation.

The currency mismatch haircut for a 10-business day holding period and daily mark-to-market is equal to 8 per cent.

A bank shall use the relevant square root of time formula specified in paragraph (b)(xiv) above to scale up a haircut percentage when the holding period or frequency of mark-to-market adjustment differs from the specified minimum requirements.”;

(jjj) by the substitution in subregulation (9)(d)(i) for item (C) of the following item:

“(C) In the case of a proportional structure, that is, when losses are shared pari passu on a pro rata basis between the bank and the protection provider, the protection buyer may recognise protection in respect of all relevant reference assets, reference entities or underlying assets on a proportional basis, provided that first-to-default and all other nth-to-default credit derivative instruments in terms of which the bank obtains credit protection for a basket of reference names and when the first- or nth–to-default among the reference names triggers the credit protection whereafter the contract is terminated shall not be eligible for risk mitigation purposes in terms of these Regulations.";

(kkk) by the substitution in subregulation (9)(d)(i) for item (E) of the following item:

"(E) A materiality threshold contained in a credit-derivative contract that requires a given amount of loss to occur to the protection buyer before the protection seller is obliged to make payment to the protection buyer or reduces the amount of payment to the protection buyer shall be regarded as equivalent to a first-loss credit-enhancement facility applied in asset securitisation and synthetic securitisation structures.

A bank that is a protection buyer shall risk weight such a materiality threshold in accordance with the relevant requirements specified in subregulation (6)(j) above, that is, the bank purchasing the credit protection shall assign a risk weight of 1250 per cent to the portion of the exposure up to the relevant specified materiality threshold. The capital requirement in respect of such bought protection shall be limited to the capital requirement relating to the underlying asset or reference asset when no protection is recognised.";

(lll) by the substitution in subregulation (9)(d)(ii) for item (C) of the following item:

"(C) When a bank provides credit protection through a first-to-default, second-to-default or similar type of credit derivative instruments, the bank shall calculate the relevant required risk weighted exposure amounts as follows:

(i) in the case of a first-to-default credit derivative instrument, the bank shall aggregate the relevant risk weights of the respective assets or exposures included in the basket, up to a maximum of 1250 per cent, and multiply the result with the nominal amount of the protection provided by the relevant credit derivative instrument;

(ii) in the case of a second-to-default credit derivative instrument, the bank shall aggregate the relevant risk weights of the respective assets or exposures included in the basket, up to a maximum of 1250 per cent, and multiply the result with the nominal amount of the protection provided by the credit derivative instrument, provided that in aggregating the respective risk weights up to a maximum of 1250 per cent the asset or exposure with the lowest risk-weight may be excluded from the bank's relevant calculation;

(iii) in the case of a nth-to-default credit derivative instrument, the bank shall aggregate the relevant risk weights of the respective assets or exposures included in the basket, up to a maximum of 1250 per cent, and multiply the result with the nominal amount of the protection provided by the credit derivative instrument, provided that, in aggregating the respective risk weights up to a maximum of 1250 per cent, the n-1 assets with the lowest risk-weights may be excluded from the bank's relevant calculation.";

(mmm) by the substitution in subregulation (9)(d)(ii) for item (D) of the following item:

"(D) In the case of a proportional structure, that is, when losses are shared pari passu on a pro rata basis between the protection buyer and the protection provider, the protection seller shall proportionally attribute the relevant risk weights to all relevant reference assets, reference entities or underlying assets.";

(nnn) by the deletion in subregulation (9)(d)(ii) of item (E);

(ooo) by the substitution in subregulation (9)(d) for subparagraph (iii) of the following subparagraph:

"(iii) Eligible protection providers

For risk-mitigation purposes in terms of these Regulations, credit protection obtained from protection providers that are assigned a risk weight lower than the protected exposure shall be recognised as eligible protection providers, including protection obtained from:

(A) sovereigns;

(B) central banks;

(C) public-sector entities;

(D) multilateral development banks;

(E) banks;

(F) securities firms;

(G) other prudentially regulated financial institutions with a risk weight lower than the protected exposure;

(H) in the case of a jurisdiction that allows the use of external ratings for purposes of calculating minimum required capital and reserve funds, other externally rated entities that are assigned a risk weight lower than the protected exposure;

(I) in the case of a jurisdiction that does not allow the use of external ratings for purposes of calculating minimum required capital and reserve funds, entities that comply with the relevant requirements related to and, as such, are included in the category "investment grade" envisaged in subregulation (8) hereinbefore,

Provided that-

(i) when credit protection is obtained in respect of a securitisation exposure, only credit protection obtained from entities externally rated BBB- or better at the end of the reporting month, and that were externally rated A- or better at the time the credit protection was obtained, shall constitute eligible protection for purposes of these Regulations, including any relevant credit protection provided by a parent institution, subsidiary or affiliate companies;

(ii) for purposes of calculating the minimum required amount of capital and reserve funds of a branch in terms of the provisions of the Act read with these Regulations, no protection received from the parent foreign institution or any other branch or subsidiary of the parent foreign institution in respect of an exposure incurred by the branch in the Republic shall be regarded as eligible protection;

(iii) the credit quality of the protected exposure shall not have a material positive correlation with the credit quality of the relevant protection provider;

(iv) first-to-default and all other nth-to-default credit derivative instruments, that is, instruments in terms of which the bank obtains credit protection for a basket of reference names and where the first- or nth–to-default among the reference names triggers the credit protection and terminates the contract, shall not be eligible as credit risk mitigation instruments.";

(ppp) by the substitution in subregulation (9)(d) for subparagraph (x) of the following subparagraph:

"(x) Proportional cover

When-

(A) a bank obtains credit protection for less than the amount of the bank's exposure to credit risk; or

(B) when losses are shared pari passu on a pro rata basis between the bank and the protection provider,

the bank shall recognise the credit protection on a proportional basis, that is, the protected portion of the exposure shall be risk weighted in accordance with the provisions of this paragraph (d) and the remainder of the credit exposure shall be regarded as unsecured.";

(qqq) by the substitution in subregulation (9)(d)(xi)(A) for subitem (i) of the following subitem:

"(i) Notwithstanding the provisions of these Regulations, a bank that wishes to engage in credit-derivative transactions shall ensure that it complies with such rules, conditions or such regulations as may be issued in writing by the

Financial Surveillance Department of the Reserve Bank relating to credit-derivative instruments from time to time.";

(rrr) by the substitution in subregulation (9)(d)(xi)(A) for subitem (ii) of the following subitem:

"(ii) Protection from a credit-derivative contract shall be recognised in terms of these Regulations to the extent-

(aa) that such protection has not already been taken into consideration in the calculation of the reporting bank's required amount of capital and reserve funds, that is, when any relevant credit assessment or risk weight already reflects the effect of credit risk mitigation, such risk mitigation shall not be taken into consideration again or be double-counted;

(bb) that such protection can be realised by the reporting bank under normal market conditions, that is, the value at which the protection can be realised shall not differ materially from its book value;

(cc) that the bank complies with the relevant requirements relating to disclosure, specified in regulation 43 or directed in writing by the Authority from time to time.";

(sss) by the substitution in subregulation (9)(d)(xi)(B) for subitem (iii) of the following subitem:

"(iii) Irrevocable

Other than a protection buyer's non-payment of money due in respect of the credit protection contract, there shall be no clause in the contract that would allow the protection seller unilaterally to cancel the credit protection, to increase the effective cost of the protection or to change the contracted maturity *ex post*, due to a deterioration in the credit quality of the protected exposure.";

(ttt) by the substitution in subregulation (9)(d)(xi)(B) for subitem (xi) of the following subitem:

"(xi) As a minimum, the credit events relating to non-sovereign debt, specified by the contracting parties shall include the respective events specified in sub-sub-items (aa) to (dd) below:

(aa) Bankruptcy or insolvency.

(bb) Any application for protection from creditors.

(cc) Payment default, that is, failure to pay the principal amount or related interest amounts due.

(dd) Any restructuring of the underlying obligation that results in a credit loss event such as a credit impairment or other similar debit being raised, including-

(i) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals;

(ii) a reduction in the amount of principal, fees or premium payable at maturity or at the scheduled redemption dates;

(iii) a change in the ranking in the priority of payment of any obligation, causing the subordination of such obligation;

(iv) a postponement or other deferral of a date or dates for either the payment or accrual of interest or the payment of the principal amount or premium.

Provided that, in the case of corporate exposure, when the credit derivative instrument does not include the restructuring of the underlying obligation as a credit event, but the other requirements specified in this sub-paragraph (xi) are met, the conditions specified in sub-sub-items (ee) and (ff) below shall apply, and when the requirements specified in sub-sub-items (ee) and (ff) are not met, the relevant conditions specified in sub-sub-item (gg) below shall apply;

(ee) a 100 per cent vote shall be required to amend maturity, principal, coupon, currency or seniority status of the underlying corporate exposure;

(ff) the legal domicile in which the corporate exposure is governed shall have a well-established bankruptcy code that allows for a company to reorganise/restructure and shall provide for an orderly settlement of creditor claims;

(gg) when the credit-derivative instrument does not include the restructuring of the underlying obligation as a credit event and the risk mitigation amount of the credit derivative-

(i) is less than or equal to the amount of the underlying obligation, 60 per cent of the amount of the hedge derived from the credit derivative shall be regarded as eligible risk mitigation;

(ii) is larger than that of the underlying obligation, the amount of the hedge derived from the credit derivative regarded as eligible risk mitigation shall be limited to 60 per cent of the amount of the relevant underlying obligation.";

(uuu) by the substitution in subregulation (9)(d)(xi)(B)(xii) for sub-subitem (dd) of the following sub-subitem:

“(dd) Any restructuring of the underlying obligation that results in a credit loss event such as a credit impairment or other similar debit being raised, including-

(i) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals;

(ii) a reduction in the amount of principal, fees or premium payable at maturity or at the scheduled redemption dates;

(iii) a postponement or other deferral of a date or dates for either the payment or accrual of interest or the payment of the principal amount or premium;

Provided that, subject to such further conditions as may be specified in writing by the Authority, when the credit-derivative instrument does not include the restructuring of the underlying obligation as a credit event, it shall be deemed that the bank obtained protection equal to a maximum of sixty per cent of the amount covered in terms of the credit-derivative instrument.”;

(vvv) by the substitution in subregulation (9)(e) for subparagraph (i) of the following subparagraph:

“(i) A maturity mismatch occurs when the residual maturity of the credit protection obtained in the form of eligible collateral, guarantees or credit-derivative instruments, or in terms of a netting agreement, is less than the residual maturity of the relevant underlying credit exposure, that is, when the residual maturity of the credit protection is-

(A) less than the residual maturity of the underlying credit exposure a maturity mismatch exists, and the bank shall treat the relevant positions in accordance with the relevant requirements specified in this paragraph (e);

(B) longer than the residual maturity of the underlying credit exposure, the position shall for purposes of these Regulations be regarded as fully protected.”;

(www) by the substitution in subregulation (9)(e) for subparagraph (ii) of the following subparagraph:

“(ii) A bank shall conservatively define the maturity of the underlying exposure and the maturity of the relevant credit protection, that is, the effective maturity of-

(A) the relevant underlying exposure shall be the longest possible remaining time before the obligor is scheduled to fulfil its obligation, duly taking into account any relevant grace period that may apply or may be granted;

(B) the credit protection shall be determined so that the bank applies the shortest possible effective maturity. For example,

(i) the bank shall take an embedded option that may reduce the term of the credit protection into account when the bank determines the effective maturity of the credit protection, so that the shortest possible effective maturity is used; and

(ii) the bank shall determine the effective maturity of credit protection with step-up and call features based upon the remaining time to the first call.";

(xxx) by the substitution in subregulation (9)(e)(iv) for item (B) of the following item:

"(B) the comprehensive approach for the recognition of risk mitigation relating to netting, collateral, guarantees or credit-derivative instruments, the bank shall recognise the effect of mismatches between the maturity of the bank's underlying exposure and the protection obtained through the application of the formula specified below, which formula is designed to recognise the effect of the maturity mismatch, as follows:

$$P_a = P \cdot \frac{t - 0.25}{T - 0.25}$$

where:

P_a is the relevant value of the credit protection obtained, adjusted for the maturity mismatch

P is the relevant amount of credit protection obtained, adjusted for any relevant haircuts

t is min (T, residual maturity of the credit protection arrangement), expressed in years

T is min (5, residual maturity of the exposure), expressed in years";

(yyy) by the substitution in subregulation (9)(f) for subparagraph (i) of the following subparagraph:

"(i) When a bank obtains-

(A) multiple risk mitigation instruments to protect a single exposure, that is, the bank has obtained, for example, collateral, a guarantee and a credit-derivative instrument partially protecting an exposure; or

(B) protection with differing maturities,

the bank shall subdivide the exposure into the relevant portions covered by the relevant types of risk mitigation instruments.";

(zzz) by the substitution in subregulation (11)(a) for subparagraph (ii) of the following subparagraph:

“(ii) shall continuously comply with the relevant minimum disclosure requirements specified in regulation 43(2) read with such further requirements as may be directed in writing by the Authority;”;

(aaaa) by the substitution in subregulation (11)(b) for subparagraph (i) of the following subparagraph:

“(i) Subject to such conditions as may be specified in writing by the Authority, a bank that adopted the foundation IRB approach for the measurement of the bank’s exposure to credit risk in respect of positions held in the bank’s banking book shall adopt and apply the said approach in respect of all the bank’s material asset classes and business units.”;

(bbbb) by the substitution in subregulation (11)(b)(v)(D)(i) for sub-sub-item (bb) of the following sub-sub-item:

“(bb) transaction risk, which transaction risk shall include matters relating to product and collateral types such as, for example-

(i) loan-to-value or lending-to-value measures;

(ii) seasoning, provided that, for each relevant pool, when the bank estimates PD and LGD, the bank shall also analyse in the data used to derive the estimates the representativeness of the age of the relevant facility, that is, the time since origination for PD and the time since the date of default for LGD, and the bank shall appropriately adjust the estimates with an adequate margin of conservatism to account for any lack of representativeness as well as any anticipated implications of rapid exposure growth;

(iii) guarantees;

(iv) seniority; and

(v) any cross-collateral provision, where present;”;

(cccc) by the insertion in subregulation (11)(b)(v)(E) of the following sub-item after sub-item (v):

“(vi) shall ensure that idiosyncratic, industry-specific changes and/ or material business cycle effects are appropriate drivers to ensure an appropriate migration of any relevant exposure from one category to another category;”;

(dddd) by the renumbering in subregulation (11)(b)(v)(E) of sub-item (vi) as sub-item (vii);

(eeee) by the substitution in subregulation (11)(b)(v) for item (F) of the following item:

"(F) shall incorporate an appropriate time horizon in order to assign a risk rating to a borrower, which rating shall be based on a sufficiently long time horizon-

(i) to appropriately estimate an obligor's probability of default;

(ii) to appropriately represent the bank's assessment of the borrower's ability and willingness to repay contractual obligations despite adverse economic conditions or the occurrence of unexpected events;

(iii) that includes an appropriate range of economic conditions, consistent with current conditions as well as those likely to occur, for example, over a business cycle within the relevant industry or geographic region;";

(ffff) by the substitution in subregulation (11)(b)(vi)(A) for subitem (i) of the following subitem:

"(i) may be based on one or more of the three techniques specified below, provided that the underlying historical observation period shall be a minimum period of five years in respect of at least one of the said techniques and the relevant data shall include an appropriate and representative mix of good and bad years:";

(gggg) by the substitution in subregulation (11)(b)(vi)(A) for subitem (vi) of the following subitem:

"(vi) shall incorporate all relevant and material information, that is, when the available observation period, for example, spans a longer period than the minimum required five-year observation period for any source, and the data are relevant and material, the bank shall use that longer period of available data;";

(hhhh) by the substitution in subregulation (11)(b)(vi)(A) for subitem (xi) of the following subitem:

"(xi) shall be based on an estimation technique that performs well in out-of-sample tests; and";

(iiii) by the insertion in subregulation (11)(b)(vi)(A) of the following subitem:

"(xii) shall in all relevant cases and for each rating grade be based upon the observed historical average one-year default rate, which shall be a simple average based on the relevant number of obligors, that is, a count weighted approach, and the bank shall not apply any form of a weighting approach, such as, for example, an EAD weighted approach.";

(jjjj) by the substitution in subregulation (11)(b)(vi)(B) for the introductory words of subitem (iv) of the following introductory words:

"(iv) may rely on external data or statistical models for quantification, provided that the bank shall demonstrate to the satisfaction of the Authority a strong link between-";

(kkkk) by the insertion in subregulation (11)(b)(vi)(B)(x) of the following sub-sub-item:

"(dd) the LGD ratio used as input into the relevant risk weight formulae specified in paragraph (d) and in subregulation (12), as the case may be, as well as for the calculation of the bank's expected loss amount, shall in no case be less than the parameter floors specified in table 1 below:

Table 1

Retail class	**LGD floor**	
	Unsecured	**Secured**
Residential mortgage exposure	N/A	5%
Qualifying revolving retail exposure	50%	N/A
Other retail exposure[1]	30%	Collateral
- financial		0%
- receivables		10%
- commercial or residential real estate		10%
- other physical		15%

1. **The LGD floor related to any partially secured exposure shall be calculated in accordance with the formula specified in subregulation (14)(b)(ii)(F).**";

(llll) by the substitution in subregulation (11)(b)(vi)(B) for subitem (xi) of the following subitem:

"(xi) shall, irrespective of whether the bank is using external, internal, pooled data sources or a combination of the said three sources for the estimation of loss characteristics, be based on an underlying historical observation period of not less than five years, provided that-

(aa) when the available observation period for any of the aforementioned sources spans a period of more than five years, and the data are relevant, the bank shall use that longer period of available data;

(bb) in all relevant cases, the data shall include an appropriate and representative mix of good and bad years of the economic cycle relevant for the portfolio;

(cc) in all relevant cases, unless specifically otherwise stated, the PD ratio shall be based on the observed historical average one-year default rate.";

(mmmm) by the deletion in subregulation (11)(b)(ix) of item (B);

(nnnn) by the renumbering in subregulation (11)(b)(ix) of items (C) to (F) as items (B) to (E), respectively;

(oooo) by the substitution in subregulation (11)(c) for the words preceding subparagraph (i) of the following words:

"A bank that adopted the IRB approach for the measurement of the bank's exposure to credit risk shall categorise its banking book exposures into one of the asset categories specified below and apply the IRB approach in respect of all material asset categories specified below:";

(pppp) by the substitution in subregulation (11)(c)(i) for item (E) of the following item:

"(E) High-volatility commercial real estate

For the purposes of these Regulations, a bank shall classify any funding provided in respect of commercial real estate that exhibits higher loss rate volatility, that is, higher asset correlation, than other types of specialised lending as a high-volatility commercial real estate exposure, including-

(i) exposures in respect of commercial real estate in respect of which the sources of repayment are uncertain on the date of origination of the exposure, such as the future uncertain sale of the property;

(ii) any loan financing land acquisition, development and construction phases in respect of such commercial real estate or property; and

(iii) such other exposures relating to commercial real estate as may be specified in writing by the Authority.";

(qqqq) by the substitution in subregulation (11)(c)(i) for the words immediately following item (E)(iii), and immediately preceding subregulation (11)(c)(ii), of the following words:

"When the repayment of a debt obligation of a corporation, partnership or proprietorship is not solely or almost exclusively based on the cash flows envisaged in items (A) to (E) above and the bank is able to rate the credit quality of the obligor based on the obligor's broader ongoing operations and independent capacity to repay its debt obligations, the bank shall classify the said exposure as a corporate exposure instead of one of the specialised lending subcategories envisaged in items (A) to (E) above.";

(rrrr) by the substitution in subregulation (11)(c)(ii) for item (E) of the following item:

"(E) the multilateral development banks that qualify for a zero per cent risk weight in terms of the respective requirements specified in subregulation (6) read with subregulation (8);";

(ssss) by the substitution in subregulation (11)(c) for subparagraph (iii) of the following subparagraph:

"(iii) Bank exposure

A bank shall include in this category all relevant exposures to banks, as envisaged in subregulation (8), including-

(A) exposures to securities firms and other financial institutions treated in a manner similar to exposures to banks in terms of the provisions of the standardised approach, in subregulation (5) read with the relevant requirements specified in subregulations (6) and (8);

(B) exposures to public-sector bodies not treated as part of sovereign exposure envisaged in subparagraph (ii) hereinbefore;

(C) banks in the RSA;

(D) multilateral development banks that do not qualify for a zero per cent risk weight in terms of the provisions of the standardised approach, in subregulation (5) read with the provisions of subregulations (6) and (8) above.";

(tttt) by the substitution in subregulation (11)(c)(iv)(A) for subitem (i) of the following subitem:

"(i) Exposure to an individual

The exposure shall be to an individual and shall relate to revolving credit or a line of credit such as, for example, a credit card receivable, an overdraft facility, a personal term loan or lease, instalment finance, a loan or lease in respect of a vehicle, a student or educational loan, personal finance, or other exposures with similar characteristics, regardless of the extent of the exposure, provided that the Authority may specify specific thresholds in writing to duly distinguish between retail and corporate exposures.";

(uuuu) by the substitution in subregulation (11)(c)(iv)(A) for subitem (ii) of the following subitem:

"(ii) Residential mortgage loans or exposure

The exposure shall be secured by mortgage in respect of residential property as envisaged in subregulation (6)(c) read with subregulation (8)(c), including first and subsequent liens, term loans and revolving home equity lines of credit, regardless of the extent of the exposure, which exposure shall comply with the relevant reguirements specified in subregulation (6)(c) read with subregulation (8)(c), provided that the Authority may-

(aa) specify limits in respect of the maximum number of housing units per exposure or persons other than individuals to which the relevant exposure relates;

(bb) subject to such conditions as may be specified in writing by the

Authority, require an exposure to be excluded from this retail residential mortgage sub-asset class when an individual has mortgaged more than a specified number of properties or housing units, and require such loans to be classified and risk weighted as corporate exposures;";

(vvvv) by the substitution in subregulation (11)(c)(iv)(A) for subitem (iv) of the following subitem:

"(iv) Large number of exposures

The exposure shall be one of a large pool of exposures and shall be managed by the bank on a pooled basis, that is, exposures shall be managed as part of a portfolio segment or pool of exposures with similar risk characteristics.";

(wwww) by the substitution in subregulation (11)(c)(iv)(B) for subitem (i) of the following subitem:

"(i) Residential mortgage loans, that is, exposures secured by residential property

A bank shall include in this pool of exposures only those exposures that comply with the requirements specified in item (A)(ii) above.";

(xxxx) by the substitution in subregulation (11)(c)(iv)(B)(ii) for sub-sub-item (ee) of the following sub-sub-item:

"(ee) shall exhibit low volatility in loss rates relative to their average level of loss rates, especially within the low PD bands,";

(yyyy) by the insertion in subregulation (11)(c)(iv)(B)(ii), immediately after sub-sub-item (ee), of the following provisos related to subregulation (11)(c)(iv)(B)(ii):

"Provided that within the bank's qualifying revolving retail exposure subcategory, the bank shall further distinguish between-

(i) exposures to transactors, that is, the exposure relates to an obligor with a facility such as a credit card or charge card in respect of which the outstanding balance has been repaid in full at each relevant scheduled repayment date for the preceding 12 months, or the exposure is in relation to an overdraft facility in respect of which no drawdowns have been made during the preceding 12 months; and

(ii) exposures to revolvers, that is, any qualifying revolving retail exposure that does not constitute an exposure to a transactor.";

(zzzz) by the substitution in subregulation (11)(c) for subparagraph (v) of the following subparagraph:

"(v) Equity exposure

In relation to the bank's equity exposures and equity instruments held in the bank's banking book, the bank shall categorise its respective exposures and instruments based upon the economic substance and not the legal form of the instruments and risk weight the relevant exposures in accordance with, and comply with, the respective requirements specified in this subregulation (11) read with subregulation (6)(j), subregulation (8)(j), regulation 31 and regulation 38.";

(aaaaa) by the substitution in subregulation (11)(d)(ii) for item (A) of the following item:

"(A) In the case of an exposure other than an exposure to a small or medium sized entity ("SME"), which exposure is not in default, as follows:

RWA = K x 12,5 x EAD

where:

RWA is the risk weighted asset amount.

K is the capital requirement, which capital requirement shall be calculated through the application of the formula specified below

$$(K) = \left[LGD \cdot N\left[\frac{G(PD)}{\sqrt{(1-R)}} + \sqrt{\frac{R}{1-R}} \cdot G(0.999) \right] - PD \cdot LGD \right] \cdot \frac{\left(1+(M-2.5)\cdot b\right)}{(1-1.5\cdot b)}$$

Provided that when the calculation of K results in a negative capital requirement in respect of a particular exposure, the bank shall apply a capital requirement equal to zero in respect of the relevant exposure

PD is the probability of default, and constitutes a ratio

In the case of exposures to-

(i) corporate institutions or banks, the PD ratio shall be the one-year PD associated with the relevant internal grade to which the exposure is assigned, subject to a floor of 0.05 per cent, provided that the aforementioned floor of 0.05 per cent shall not apply when the exposure to the relevant corporate or bank is guaranteed by a sovereign and the guarantee complies with the respective requirements specified in subregulation (12);

(ii) sovereigns, the PD ratio shall be the one-year PD ratio associated with the relevant internal grade to which the exposure is assigned;

(iii) intragroup banks or other formally regulated intragroup financial entities with capital requirements similar or equivalent to these Regulations, which banks or entities are included in the consolidated amounts calculated in accordance with the relevant requirements specified in these Regulations in respect of consolidated supervision, the PD ratio shall be deemed to be equal to zero.

LGD is the loss-given-default ratio

In the case of-

(i) senior claims on sovereigns, banks, securities firms and other financial institutions, including insurance companies and any financial institution that falls within the corporate asset class, not secured by eligible collateral, the bank shall apply an LGD ratio of 45 per cent;

(ii) senior claims on corporates other than the persons, institutions or entities specified immediately hereinbefore in item (i), not secured by eligible collateral, the bank shall apply an LGD ratio of 40 per cent;

(iii) subordinated claims, that is, a facility that is economically or otherwise expressly subordinated to another facility, in relation to any of the persons, institutions or entities specified immediately hereinbefore in items (i) and (ii), the bank shall apply an LGD ratio of 75 per cent.

M is the effective maturity of the relevant exposure, which maturity shall be equal to 2.5 years, unless the exposure relates to a repurchase or resale transaction in which case an effective maturity equal to six months, that is, M = 0.5, shall apply, provided that-

(i) the Authority may require; or

(ii) on prior written application by the reporting bank and subject to such conditions as may be specified in writing, the Authority may allow,

a bank to calculate the effective maturity of a particular exposure in accordance with the relevant requirements specified in subregulation (13)(d)(ii)(B) below

R is the relevant correlation, which correlation shall be calculated through the application of the formula specified below

$$(R) = 0.12 \cdot \frac{\left(1-e^{-50 \cdot PD}\right)}{\left(1-e^{-50}\right)} + 0.24 \cdot \left(1 - \frac{\left(1-e^{-50 \cdot PD}\right)}{\left(1-e^{-50}\right)}\right)$$

Provided that, in relation to all relevant exposures to financial institutions that meet the criteria specified below, the bank shall apply a multiplication factor of 1.25 to the aforesaid correlation parameter "R", such that correlation R FI = 1.25 x R, that is-

$$(R\_FI) = 1.25 \cdot \left[0.12 \cdot \frac{\left(1-e^{-50 \cdot PD}\right)}{\left(1-e^{-50}\right)} + 0.24 \cdot \left(1 - \frac{\left(1-e^{-50 \cdot PD}\right)}{\left(1-e^{-50}\right)}\right)\right]$$

in relation to:

(i) any regulated financial institution with total assets greater than or equal to such amount as may be directed in writing by the Authority,

(aa) which asset amount shall be based on the most recent consolidated audited financial statements of the relevant parent company and its relevant subsidiaries;

(bb) which regulated financial institutions shall for purposes of these Regulations include any parent institution and its subsidiaries, where any relevant substantial legal entity in the consolidated group is supervised by a regulator that imposes prudential requirements consistent with such international norms as may be specified in writing by the Authority, which institutions shall include, but are not limited to, prudentially regulated insurance companies, broker/dealers and banks;

(ii) any unregulated financial institution, regardless of size, which unregulated financial institutions shall for purposes of these Regulations include legal entities of which the main business includes-

(aa) the management of financial assets;

(bb) lending;

(cc) factoring;

(dd) leasing;

(ee) provision of credit enhancements;

(ff) securitisation or resecuritisation;

(gg) investments;

(hh) financial custody;

(ii) central counterparty services;

(jj) proprietary trading; or

(kk) such other financial services activities as may be specified or directed in writing by the Authority

b is the relevant maturity adjustment, which maturity adjustment shall be calculated through the application of the formula specified below

$$(b) = \left[0.11852 - 0.05478 \cdot \ln(PD)\right]^2$$

ln denotes the natural logarithm

EXP is the inverse of the natural logarithm, ln

N(x) denotes the cumulative distribution function for a standard normal random variable, that is, the probability that a normal random variable with a mean equal to zero and variance of one is less than or equal to x.

G(z) denotes the inverse cumulative distribution function for a standard normal random variable, that is, the value of x such that N(x) = z.

EAD is the exposure at default, which exposure shall be measured gross of any specific credit impairment raised or partial write-offs made by the reporting bank.

A bank shall measure its exposure at default in accordance with the relevant requirements specified below:

(i) In the case of any drawn amounts, the exposure at default shall be equal to the sum of the drawn amounts after the effect of set-off in accordance with the relevant requirements specified in regulation 13 has been recognised, provided that the said exposure shall not be less than the sum of-

(aa) the amount by which the bank's capital requirement would be reduced when the exposure amounts are written off in full; and

(bb) any specific credit impairment raised or partial write-off made by the reporting bank in respect of the relevant exposure amounts.

(ii) In the case of off-balance-sheet items other than unsettled derivative contracts, the exposure at default shall be equal to the sum of committed but undrawn amounts multiplied by the relevant credit conversion factors specified in subregulation (6)(g), provided that-

(aa) when a constraining condition applies to an unused committed facility, such as a limit on the amount available for withdrawal, which limit, for example, may relate to the financial position of the relevant obligor at any given point in time, the bank shall apply the relevant specified credit-conversion factor to the lower amount of the unused committed facility and the said constraining limit, provided that, in such cases, the bank shall demonstrate to the satisfaction of the Authority that the bank has in place sufficiently robust line monitoring and management procedures to enforce the said constraining limit at all times;

(bb) in the case of any uncommitted or revocable facility, the bank shall demonstrate to the satisfaction of the Authority that the bank actively monitors the financial condition of the relevant obligor and that the internal control systems of the bank are adequate to cancel a facility upon receiving evidence of a deterioration in the credit quality of the relevant obligor;

(cc) when a commitment is obtained in respect of another off-balance-sheet exposure, the bank shall apply to the relevant exposure the lower of the relevant credit-conversion factors;

(dd) when the bank has securitised only the drawn balances of revolving facilities, the bank shall continue to maintain the relevant required amount of capital and reserve funds against any relevant undrawn balances associated with the said securitised exposures.

(iii) In the case of unsettled derivative contracts, the exposure amount or exposure at default shall be equal to the sum of amounts calculated in accordance with the relevant requirements specified in subregulations (15) to (19) below.";

(bbbbb) by the substitution in subregulation (11)(d)(ii)(B) for subitem (i) of the following subitem:

"(i) the capital requirement (K) shall be equal to the higher of zero and the difference between the exposure's LGD and the bank's best estimate of expected loss.

The risk-weighted amount in respect of the defaulted exposure shall be calculated through the application of the formula specified below.

RWA = K x12,5 x EAD";

(ccccc) by the substitution in subregulation (11)(d)(ii) for item (C) of the following item:

"(C) In the case of an exposure to an SME borrower, which SME borrower would otherwise be categorised as a corporate exposure, the bank shall make an adjustment to the formula specified in item (A) above, which adjustment shall be calculated through the application of the relevant formula, and in accordance with such conditions, as may be specified in writing by the Authority when the reported turnover or sales for the consolidated group of which the SME borrower is a member is less than such amount as may be directed in writing by the Authority, provided that, subject to such conditions as may be specified in writing, the Authority may require banks in writing to substitute turnover or sales for assets as the base.";

(ddddd) by the substitution in subregulation (11)(d)(iii) for item (B) of the following item:

"(B) In the case of high-volatility commercial real estate exposure, a bank that adopted the foundation IRB approach for the measurement of the bank's exposure to credit risk shall apply the asset correlation formula specified below, instead of the asset correlation formula that would otherwise apply to corporate exposures.

$$\text{Correlation (R)} = \quad 0.12 \cdot \frac{\left(1-e^{-50 \cdot PD}\right)}{\left(1-e^{-50}\right)} + 0.30 \cdot \left(1-\frac{\left(1-e^{-50 \cdot PD}\right)}{\left(1-e^{-50}\right)}\right)$$";

(eeeee) by the substitution in subregulation (11)(d)(iii) for item (C) of the following item:

"(C) When a bank that adopted the foundation IRB approach for the measurement of the bank's exposure to credit risk is unable to comply with the specified requirements to estimate the probability of default in terms of the foundation IRB approach for corporate exposure or the Authority directs the bank to map its internal risk grades to the risk grades specified below, the bank shall map its internal risk grades, which internal risk grades shall be based on the bank's own criteria, systems and processes, to the risk grades specified below, which specified risk grades shall be linked to the risk weights for unexpected loss, and are likely to correspond to the range of external credit assessments, specified below:";

(fffff) by the substitution in subregulation (11)(d)(iv) for item (A) of the following item:

"(A) In the case of residential mortgage exposures not in default, as follows:

RWA = K x 12,5 x EAD

where:

RWA is the relevant risk-weighted asset amount

K is the capital requirement, which capital requirement shall be calculated through the application of the formula specified below:

$$K = \left[LGD \cdot N\left[\frac{G(PD)}{\sqrt{(1-R)}} + \sqrt{\frac{R}{1-R}} \cdot G(0.999) \right] - PD \cdot LGD \right]$$

PD is the probability of default, and constitutes a ratio

A bank shall apply a PD ratio equal to the higher of the one-year PD associated with the relevant internal grade to which the pool of exposures is assigned, or 0.05 per cent.

LGD is the loss-given-default ratio estimated by the bank, provided that-

(i) the LGD estimate in respect of retail exposures secured by residential property shall in no case be less than 5 per cent unless the said exposure is protected by a guarantee obtained from a sovereign;

(ii) the Authority may amend the minimum LGD ratio of 5 per cent subject to such conditions as may be specified in writing by the Authority.

R is the correlation, which correlation shall be a constant number equal to 0.15

EAD is the exposure at default, which exposure shall be measured gross of any specific credit impairment raised or partial write-offs made by the reporting bank, as follows:

(i) In the case of any drawn amounts, the exposure at default shall be equal to the sum of the drawn amounts after the effect of set-off in accordance with the relevant requirements specified in regulation 13 has been recognised, provided that the said exposure shall not be less than the sum of-

(aa) the amount by which the bank's capital requirement would be reduced when the exposure amounts are written off in full; and

(bb) any specific credit impairment raised or partial write-off made by the reporting bank in respect of the exposure amounts.

(ii) In the case of any undrawn revolving commitment to extend credit, purchase assets or issue credit substitutes, the bank shall use its own estimates of EAD, provided that-

(aa) the bank shall comply with the relevant requirements specified in subregulation (13)(b)(v)(D);

(bb) when the relevant off-balance-sheet exposure is subject to a CCF of 100 per cent in terms of the provisions of subregulation (6)(g) read with subregulation (8)(g), the bank shall apply to the said exposure a CCF equal to 100 per cent;

(cc) in the case of any undrawn non-revolving commitment the bank shall apply to the relevant off-balance-sheet exposure the relevant CCF specified in subregulation (6)(g);

(dd) when the bank does not comply with the relevant requirements specified in subregulation (13)(b)(v)(D), the bank shall apply to the relevant off-balance-sheet exposure the relevant CCF specified in subregulation (6)(g);

(ee) when the bank's relevant retail off-balance-sheet exposures are subject to uncertain future drawdown, such as in the case of credit card exposures, the bank shall take into account its history and/or expectation of additional drawings prior to default;

(ff) when the bank's estimate of EAD does not adequately incorporate additional drawings on undrawn lines prior to default, as envisaged hereinbefore, the bank shall make appropriate adjustments to its estimates of LGD;

(iii) When the bank has securitised only the drawn balances of revolving retail facilities, the bank shall continue to maintain the relevant required amount of capital and reserve funds against the relevant undrawn balances associated with the said securitised exposures, in accordance with the relevant requirements specified hereinbefore for the related commitments.

(iv) To the extent that the bank is exposed to foreign exchange and interest rate commitments within the bank's retail portfolio, the bank shall not apply any internal estimate of a credit equivalent amount or EAD amount, and the bank shall include the said commitments in accordance with the relevant requirements specified in subregulation (6)(g).";

(ggggg) by the substitution in subregulation (11)(d)(iv) for item (B) of the following item:

"(B) In the case of qualifying revolving retail exposures not in default, as follows:

RWA = K x 12,5 x EAD

where:

RWA is the relevant risk-weighted asset amount

K is the capital requirement, which capital requirement shall be calculated through the application of the formula specified below

$$K = \left[LGD \cdot N \left[\frac{G(PD)}{\sqrt{(1-R)}} + \sqrt{\frac{R}{1-R}} \cdot G(0.999) \right] - PD \cdot LGD \right]$$

PD is the probability of default, and constitutes a ratio

A bank shall apply a PD ratio equal to the higher of the one-year PD ratio associated with the relevant internal grade to which the pool of exposures is assigned, or 0.1 per cent.

LGD is the loss-given-default ratio as estimated by the bank, provided that the LGD ratio shall in no case be lower than 50 per cent

R is the correlation, which correlation shall be a constant number equal to 0.04

EAD is the exposure at default, which exposure shall be measured in accordance with the relevant requirements relating to the measurement of EAD specified in item (A) above.";

(hhhhh) by the substitution in subregulation (11)(d)(iv) for item (C) of the following item:

"(C) In the case of other retail exposures not in default, as follows:

RWA = K x 12,5 x EAD

where:

RWA is the relevant risk-weighted asset amount

K is the capital requirement, which shall be calculated through the application of the formula specified below

$$K = \left[LGD \cdot N\left[\frac{G(PD)}{\sqrt{(1-R)}} + \sqrt{\frac{R}{1-R}} \cdot G(0.999) \right] - PD \cdot LGD \right]$$

PD is the probability of default, and constitutes a ratio

A bank shall apply a PD ratio equal to the higher of the one-year PD ratio associated with the relevant internal grade to which the pool of exposures is assigned, or 0.05 per cent.

LGD is the loss-given-default ratio as estimated by the bank, provided that the LGD ratio shall in no case be lower than the respective percentages specified hereinbefore, in paragraph (b)(vi)(B)(x)(dd)

R is the correlation, calculated through the application of the formula specified below, which allows the correlation to vary with the PD of the exposure

$$R = 0.03 \cdot \frac{\left(1-e^{-35 \cdot PD}\right)}{\left(1-e^{-35}\right)} + 0.16 \cdot \left(1 - \frac{\left(1-e^{-35 \cdot PD}\right)}{\left(1-e^{-35}\right)}\right)$$

EXP is the inverse of the natural logarithm, ln

EAD is the exposure at default, which exposure shall be measured in accordance with the relevant directives relating to the measurement of EAD specified in item (A) above.";

(iiiii) by the substitution in subregulation (11)(d)(iv) for item (D) of the following item:

"(D) In the case of retail exposures in default-

(i) the capital requirement (K) shall be equal to the higher amount of zero and the difference between the exposure's LGD and the bank's best estimate of expected loss, provided that-

(aa) the LGD estimate in respect of retail exposures secured by residential property shall in no case be less than 5 per cent unless the said exposure is protected by a guarantee obtained from a sovereign;

(bb) the Authority may amend the said minimum LGD ratio of 5 per cent subject to such conditions as may be specified in writing by the Authority;

(ii) the bank shall assign to the relevant exposure a PD ratio equal to 100 per cent;

(iii) the exposure at default shall be measured in accordance with the relevant directives relating to the measurement of EAD specified in item (A) above;

(iv) the relevant risk-weighted exposure amount shall be calculated through the application of the formula specified below:

RWA =K x 12,5 x EAD";

(jjjjj) by the substitution in subregulation (11)(d) for subparagraph (v) of the following subparagraph:

"(v) Equity exposures

A bank shall calculate its relevant required amount of risk-weighted exposure related to its equity exposures held in the bank's banking book in accordance with the relevant requirements specified in this subregulation (11) read with the relevant requirements specified in subregulation (8)(j), subregulation (6)(j), regulation 31 and regulation 38, provided that during the relevant phase-in period specified in subregulation (6)(j), the bank's risk-weighted exposure amount related to its equity exposures shall be the higher of the risk-weighted exposure amount calculated in terms of-

(A) the IRB approach specified in this subregulation (11) read with regulation 31 and regulation 38; and

(B) the linear phase-in arrangement specified in subregulation (6)(j) read with subregulation (8)(j).";

(kkkkk) by the substitution in subregulation (11)(d)(vi)(C)(i)(aa) for sub-sub-item (i) of the following sub-sub-item:

"(i) shall determine the risk weight in respect of the purchased corporate receivable from the corporate risk-weight function using a LGD ratio of 40 per cent, provided that the exposures shall consist exclusively of senior claims in respect of corporate borrowers;";

(lllll) by the substitution in subregulation (11)(d)(vi)(C)(i)(aa) for sub-sub-item (ii) of the following sub-sub-item:

"(ii) shall calculate the related PD ratio by dividing the expected loss ratio by the said LGD ratio of 40 per cent;";

(mmmmm) by the substitution in subregulation (11)(d)(vi)(C)(i)(aa) for sub-sub-item (iii) of the following sub-sub-item:

"(iii) shall calculate the EAD amount as the outstanding amount minus the capital requirement relating to the risk of dilution, before the bank takes into consideration the effect of any risk mitigation instrument, provided that in the case of a revolving facility the EAD amount shall be equal to the purchased receivable amount **plus** 40 per cent of any undrawn purchased commitments **minus** the capital requirement relating to the risk of dilution;";

(nnnnn) by the substitution in subregulation (11)(d)(vi) for item (D) of the following item:

"(D) Purchase price discounts in respect of purchased receivables

(i) When a bank sells receivables at a discount, which purchase price discount-

(aa) effectively provides first loss protection in respect of the risk of default and/ or dilution; and

(bb) may be refunded to the seller based upon the performance of the relevant receivables,

the bank shall risk weight the relevant refundable purchase price discount related to the receivables in accordance with the relevant requirements related to first loss protection specified in subregulation (6)(j) read with the exemption notice relating to securitisation schemes.

(ii) A bank that purchased receivables at a discount, as envisaged in sub-item (i) hereinbefore, may recognise the relevant purchase price discount that may be refunded to the seller based upon the performance of the relevant receivables, as first-loss protection obtained, in accordance with the relevant requirements specified in these Regulations read with the exemption notice relating to securitisation schemes.

(iii) A bank shall ignore any purchase price discounts that were granted in respect of any purchased corporate or retail receivables other than the purchase price discounts envisaged in sub-items (i) and (ii) hereinbefore, when the bank calculates its risk-weighted exposure or credit impairments relating to expected loss, provided that the said discounts shall constitute non refundable amounts, that is, the said discounts shall not be repayable to the relevant seller of the receivable amounts.";

(ooooo) by the substitution in subregulation (12)(b)(i) for item (A) of the following item:

"(A) shall apply the comprehensive approach specified in subregulation

(9)(b) above in order to calculate the bank's relevant required risk components or adjusted exposure;";

(ppppp) by the substitution in subregulation (12)(b)(i) for item (B) of the following item:

"(B) shall at all times comply with the relevant minimum requirements-

(i) specified in subregulation (7)(b)(iii) above in respect of eligible financial collateral;

(ii) specified in subparagraph (ii)(B) below in respect of the further categories of collateral qualifying as eligible collateral in terms of the foundation IRB approach.";

(qqqqq) by the substitution in subregulation (12)(b)(ii) for item (B) of the following item:

"(B) In addition to eligible financial collateral recognised in terms of the standardised approach, specified in subregulation (7)(b), the collateral instruments specified below shall be recognised as eligible collateral in terms of the foundation IRB approach in respect of a bank's exposures to corporate institutions, sovereigns or banks, provided that the bank shall comply with the relevant requirements specified below:";

(rrrrr) by the substitution in subregulation (12)(b)(ii)(B)(ii) for sub-sub-item (aa) of the following sub-sub-item:

"(aa) the risk relating to the obligor shall not be materially dependent upon the performance of the underlying property or project but rather on the underlying capacity of the obligor to repay the debt due from other sources, that is, the repayment of the facility shall not be materially dependent upon any cash flow generated by the underlying commercial real estate or residential real estate serving as collateral;";

(sssss) by the substitution in subregulation (12)(b)(ii)(B)(ii) for sub-sub-item (bb) of the following sub-sub-item:

"(bb) the value of the said collateral shall not be materially dependent upon the performance of the obligor;";

(ttttt) by the insertion in subregulation (12)(b)(ii)(B)(ii) of the following sub-sub-item:

"(ee) when the bank wishes to recognise any junior lien, the bank shall-

(i) firstly reduce the value of the collateral with any relevant haircut that applies to the relevant collateral; and

(ii) thereafter reduce the value of the collateral with the sum of all loans with liens that rank higher than the junior lien, to determine the value of the collateral that supports the loan with the junior lien;";

(uuuuu) by the insertion in subregulation (12)(b)(ii)(B)(ii) of the following sub-sub-item:

"(ff) when liens are held by a third party that rank pari passu with the lien of the bank, the bank shall only recognise the proportion of the collateral that is attributable to the bank, after the application of-

(i) any relevant haircut(s); and

(ii) any reductions due to the value of loans with liens that rank higher than the lien of the bank,

as envisaged hereinbefore;";

(vvvvv) by the substitution in subregulation (12)(b)(ii)(B) for subitem (v) of the following subitem:

"(v) Physical collateral other than the types of collateral specified hereinbefore, excluding any physical assets acquired by the reporting bank due to the default by an obligor in respect of an underlying exposure, specified in writing by the Authority, provided that-

(aa) the bank shall demonstrate to the satisfaction of the Authority that a sufficiently liquid market exists in respect of the said collateral in order to ensure that the collateral can be liquidated in an expeditious and economically efficient manner;

(bb) the bank shall have in place sufficiently robust processes to periodically or whenever information indicates material changes in the market, carry out a reassessment of the existence of a sufficiently liquid market as envisaged in sub-sub-item (aa) hereinbefore;

(cc) the bank shall demonstrate to the satisfaction of the Authority that a well-established market with publicly available market prices relating to the said collateral exists and the amount ultimately received by the bank in respect of the said collateral does not substantially deviate from the said market prices;

(dd) except for preferential rights in respect of tax obligations or wages of employees, the bank shall have a priority claim in respect of the proceeds of the said collateral;

(ee) the relevant loan agreement shall include a detailed description of the said collateral and the right by the lending bank to examine and revalue the collateral whenever deemed necessary by the said lending bank ;

(ff) the bank shall have in place robust policies, processes and procedures relating to physical collateral, which policies, processes and procedures-

(i) shall in the case of inventories such as raw materials or work-in-progress, and equipment, ensure that the bank conducts regular physical inspections of the said collateral;

(ii) shall be subject to regular and appropriate independent review;

(gg) the bank-

(i) shall duly document the types of physical collateral and loan-to-value or lending-to-value ratios acceptable to the bank;

(ii) shall comply with all the relevant minimum requirements relating to commercial real estate and residential real estate specified in sub-item (ii) above and such further conditions as may be specified in writing by the Authority in respect of such a further category of physical assets qualifying as eligible collateral.";

(wwwww) by the substitution in subregulation (12)(b) for subparagraph (iii) of the following subparagraph:

"(iii) *Risk weighting*

When a bank that adopted the foundation IRB approach for the measurement of the bank's exposure to credit risk-

(A) obtains eligible collateral in respect of its exposures to corporate institutions, sovereigns or banks, the bank-

(i) shall calculate the relevant LGD ratio applicable to the collateralised transaction, denoted by LGD*, as the exposure weighted average of the LGD applicable to the unsecured portion of the exposure, denoted by LGD_U, and the LGD applicable to the collateralised portion of the exposure, denoted by LGD_S, through the application of the formulae specified below, provided that, in all relevant cases or whenever required, unless specifically otherwise specified, the bank shall calculate the relevant required EAD amount without taking into account the impact of any collateral obtained:

$$LGD^* = LGD_U \cdot \frac{E_U}{E \cdot (1 + H_E)} + LGD_S \cdot \frac{E_S}{E \cdot (1 + H_E)}$$

where:

E_U and E_S are only used to calculate LGD*

$$E_U = E \cdot (1 + H_E) - E_S$$

E is the current value of the exposure, that is, for example, cash lent or securities lent or securities posted, provided that, in the case of securities lent or posted, the bank shall increase the relevant exposure value by applying the relevant specified haircuts, denoted by He or H_E, in accordance with the relevant requirements specified in the comprehensive approach for financial collateral, in subregulation (9)(b)(viii) read with subregulation (9)(b)(xi)

E_S is the current value of the collateral received after the application of the relevant haircut-

(aa) for the relevant type of collateral, denoted by Hc, and

(bb) for any relevant currency mismatch between the exposure and the collateral,

as specified in subregulation (9)(b)(viii) read with subregulation (9)(b)(xi) and sub-item (ii) below, provided that in all relevant cases E_S shall be capped at the value of-

$$E \cdot (1 + H_E)$$

LGD_U is the relevant LGD ratio applicable to an unsecured exposure, as set out in subregulation (11)(d)(ii)

LGD_S is the relevant LGD ratio applicable to exposures secured by the specified type of collateral obtained

(ii) shall in the calculation of LGD* apply the relevant LGD ratios and haircut percentages specified in table 1 below:

Table 1

Type of collateral	LGDs	Haircut
Eligible financial collateral	0%	See note 1[1]
Eligible receivables	20%	40%
Eligible residential real estate/ commercial real estate	20%	40%
Other eligible physical collateral	25%	40%
Ineligible collateral	N/A	100%

1. In accordance with the relevant requirements specified in subregulation (9)(b)(xi) read with subregulation (9)(b)(xiv).

(iii) shall apply the relevant haircut for currency risk specified in the comprehensive approach in subregulation (9)(b) whenever the eligible collateral obtained is denominated in a currency that differs from the exposure protected by the collateral;

(iv) may in the case of repo-style transactions recognise a reduction in the bank's counterparty credit risk requirement arising from the effect of a master netting agreement by calculating its adjusted exposure, denoted by E*, in accordance with the formula and requirements specified in subregulation (9)(b)(ix) when the repo-style transaction complies with the relevant requirements specified in subregulation (9)(b)(xvi), provided that when the bank calculates the relevant required risk-weighted exposure amount and the related expected loss amount for the counterparty credit risk arising from the set of transactions covered by the relevant master netting agreement, the bank shall use E* as the EAD amount of the relevant counterparty and determine the LGD of the relevant counterparty by using the LGD related to an unsecured exposure, as set out in subregulation (11)(d)(ii);

(B) lends securities or posts collateral, the bank shall calculate a capital requirement in respect of-

(i) the credit risk or market risk related to the relevant securities, when that risk remains with the bank; and

(ii) the relevant counterparty credit risk arising from the risk that the borrower of the securities may default;

(C) obtains eligible collateral in the form of a lease agreement, which lease agreement exposes the bank to residual risk, the bank shall risk weight-

(i) the discounted lease payments based on the financial strength, that is, the PD ratio, of the lessee, and the LGD ratio specified by the Authority;

(ii) the residual value at 100 per cent.";

(xxxxx) by the substitution in subregulation (12) for paragraph (c) of the following paragraph:

"(c) *Pools of collateral*

When a bank obtains both eligible financial collateral and other eligible collateral, that is, collateral regarded as eligible collateral in terms of the foundation IRB approach but not in terms of the standardised approach, in respect of the bank's exposure to corporate institutions, sovereigns or banks, the bank shall apply the formula set out hereinbefore in paragraph (b)(iii) sequentially for each relevant individual type of eligible collateral, that is, after each relevant step of recognising one individual type of eligible collateral, the bank shall reduce the remaining value of its unsecured exposure, denoted by E_U, by the adjusted value of the relevant eligible collateral, denoted by E_S, recognised in each relevant step up to that point, provided that, as stated in paragraph (b)(iii) hereinbefore, the total value of E_S across all relevant eligible collateral types shall be restricted to the value of E * (1 + H_E), as follows:

$$LGD^* = LGD_U \cdot \frac{E_U}{E \cdot (1 + H_E)} + \sum_i LGD_{Si} \cdot \frac{E_{Si}}{E \cdot (1 + H_E)}$$

where, in respect of each relevant eligible collateral type i:

LGD_{Si} is the relevant LGD applicable to that particular form of eligible collateral

E_{Si} is the relevant current value of the collateral received after the application of the relevant haircut specified for that specific type of eligible collateral";

(yyyyy) by the substitution in subregulation (12)(d)(i) for item (C) of the following item:

"(C) shall not in the calculation of the bank's risk-weighted exposure reflect the effect of double default, that is, the adjusted risk weight relating to a particular exposure shall not be less than a comparable direct exposure to the relevant guarantor,";

(zzzzz) by the substitution in subregulation (12)(d)(ii) for the words preceding item (A) of the following words:

"In addition to the eligible guarantors specified in the standardised approach in subregulation (9)(c)(ii), a bank that adopted the foundation IRB approach for the recognition of risk mitigation relating to guarantees obtained in respect of its exposures to corporate institutions, sovereigns, banks or purchased receivables may also recognise the effect of a guarantee obtained from a guarantor rated internally by the bank, provided that-";

(aaaaaa) by the insertion in subregulation (12)(d)(ii) of the following item:

"(C) when the bank applies the standardised approach to any direct exposure to any relevant guarantor, the bank shall also apply the relevant standardised approach risk weight to the relevant portion of the exposure covered by the guarantee received from the relevant guarantor.";

(bbbbbb) by the substitution in subregulation (12)(d)(iii)(A) for subitem (ii) of the following subitem:

"(ii) shall in respect of the protected portion apply-

(aa) the risk-weight function related to the relevant guarantor; and

(bb) the PD ratio related to the relevant guarantor,

provided that, based upon its seniority or any collateralisation of a guaranteed commitment, the bank may replace the LGD ratio of the underlying transaction with the relevant LGD ratio related to the said guaranteed position;";

(cccccc) by the deletion in subregulation (12)(d)(iii) of item (D);

(dddddd) by the substitution in subregulation (12)(e)(i) for item (C) of the following item:

"(C) shall not in the calculation of the bank's risk-weighted exposure reflect the effect of double default, that is, the adjusted risk weight relating to a particular exposure shall not be less than a comparable direct exposure to the relevant protection provider,";

(eeeeee) by the substitution in subregulation (12)(e) for subparagraph (ii) of the following subparagraph:

"(ii) *Eligible protection providers*

In addition to the eligible protection providers specified in the standardised approach in subregulation (9)(d)(iii), a bank that adopted the foundation IRB approach for the recognition of risk mitigation relating to credit-derivative instruments obtained in respect of corporate institutions, sovereigns or banks may also recognise the effect of protection obtained from a protection provider that is rated internally by the bank, provided that-

(A) the said protection shall comply with the relevant minimum requirements specified in subregulation (9)(d)(xi) above;

(B) for purposes of calculating the minimum required amount of capital and reserve funds of a branch in terms of the provisions of the Banks Act, 1990, read with these Regulations, no protection provided by the parent foreign institution or any other branch of the parent foreign institution in respect of an exposure incurred by the branch in the Republic shall be regarded as eligible protection;

(C) when the bank applies the standardised approach to any direct exposure to the relevant protection provider, the bank shall also apply the relevant standardised approach risk weight to the relevant portion of the exposure protected by the relevant credit derivative instrument.";

(ffffff) by the substitution in subregulation (12)(e)(iii)(A) for subitem (ii) of the following subitem:

"(ii) shall in respect of the protected portion, apply-

(aa) the risk-weight function related to the relevant protection provider; and

(bb) the PD ratio related to the relevant protection provider,

provided that, based upon its seniority or any collateralisation of a protected exposure, the bank may replace the LGD ratio of the underlying transaction with the relevant LGD ratio related to the said protected position;";

(gggggg) by the deletion in subregulation (12)(e)(iii) of item (C);

(hhhhhh) by the deletion in subregulation (12) of paragraph (g);

(iiiiii) by the substitution for the heading of subregulation (13) of the following heading:

"(13) Method 2: Calculation of credit risk exposure in terms of the advanced IRB approach";

(jjjjjj) by the substitution in subregulation (13)(a) for subparagraph (vi) of the following subparagraph:

"(vi) shall risk weight the relevant amounts or exposures specified in subregulations (6)(j) and (11)(q), to be risk-weighted at 1250 per cent, commensurately, that is, at a risk weight of 1250 per cent.";

(kkkkkk) by the substitution in subregulation (13)(b) for subparagraph (i) of the following subparagraph:

"(i) Subject to such conditions as may be specified in writing by the Authority, a bank that adopted the advanced IRB approach for the measurement of the bank's exposure to credit risk shall adopt and apply the said approach in respect of all material eligible asset classes and business units.”;

(llllll) by the substitution in subregulation (13)(b)(v) for item (B) of the following item:

“(B) shall in the case of retail exposures estimate a PD ratio in respect of each relevant retail pool of exposures, which PD estimate shall comply with the relevant minimum requirements specified in subregulation (11)(b)(vi)(B) above;”;

(mmmmmm) by the substitution in subregulation (13)(b)(v)(C) for subitem (v) of the following subitem:

“(v) shall appropriately incorporate any potential correlation or dependence between the risk relating to the borrower and the collateral, collateral provider or protection provider.

When the bank’s estimate of LGD takes the existence of collateral into account, the bank shall ensure that it establishes sufficiently robust internal policies, processes and procedures related to collateral management, operational procedures, legal certainty and risk management process that are in all material respects commensurate to the relevant requirements specified in subregulation (9)(b) read with subregulation (12)(b);”;

(nnnnnn) by the substitution in subregulation (13)(b)(v)(C)(xiii) for sub-sub-item (bb) of the following sub-sub-item:

“(bb) exposures to corporate institutions, sovereigns or banks be based on a minimum data observation period that covers a complete economic cycle, but which observation period shall in no case be less than seven years in respect of at least one of the bank’s data sources;”;

(oooooo) by the substitution in subregulation (13)(b)(v)(C)(xiii) for sub-sub-item (cc) of the following sub-sub-item:

“(cc) retail exposures be based on a minimum data observation period of no less than five years, provided that-

(i) when the available observation period for any of the relevant sources spans a period of more than five years, and the data are relevant, the bank shall use that longer period of available data;

(ii) in all relevant cases, the data shall include an appropriate and representative mix of good and bad years of the economic cycle relevant for the portfolio;”;

(pppppp) by the insertion in subregulation (13)(b)(v)(C)(xiii) of the following sub-sub-item:

“(dd) unsecured corporate exposure be subject to an LGD floor of 25 per cent, whenever the bank calculates its expected and/or unexpected loss amount for purposes of these Regulations,";

(qqqqqq) by the insertion in subregulation (13)(b)(v)(C), immediately after the newly inserted subitem (xiii)(dd), and immediately before item (D), of the following proviso:

"Provided that when the bank complies with the respective requirements specified in this subregulation (13) for the calculation of its own internal estimates of LGD for a pool of unsecured exposures and the bank obtains eligible collateral against one of those exposures, but the bank is unable to model the effects of the collateral since the bank, for example, may not have enough data to model the effect of the collateral on recoveries, the bank may chose to apply either the formula specified in subregulation (12)(b)(iii) or subregulation (12)(c), with the exception that the variable LGD_U shall in all relevant cases be the bank's own internal estimate of the unsecured LGD, provided that that estimate of LGD_U has not already taken into account the effects of any collateral recoveries.";

(rrrrrr) by the substitution in subregulation (13)(b)(v) for item (D) of the following item:

"(D) shall estimate an appropriate EAD amount in respect of all relevant eligible or permitted facilities, commitments to extend credit or asset classes, which EAD amount-

(i) shall in the case of-

(aa) on-balance-sheet items be no less than the current drawn amount after the effect of set-off in terms of the provisions of regulation 13 has been taken into consideration;

(bb) any undrawn revolving commitment to extend credit, that is, any loan facility in terms of which the borrower has the flexibility to decide how often to withdraw from the loan facility and at what time intervals, to prepay or repay and redraw loan amounts at the borrower's discretion, be equal to the bank's own internal estimate of EAD unless the commitment is subject to a CCF of 100 per cent in terms of the foundation IRB approach, in which case the bank shall apply the said CCF of 100 per cent;

(cc) any off-balance sheet item other than an undrawn revolving commitment to extend credit, be equal to the relevant undrawn non-revolving commitment multiplied with the relevant credit conversion factor specified in subregulation (6) read with subregulation (8);

(dd) all relevant off-balance sheet items and any related credit conversion factors be effectively quarantined from the potential effects of instability that may be associated with borrower facilities close to being fully drawn at the relevant reference dates, particularly when the bank, for example, makes use of the so-called undrawn limit factor (ULF) approach or similar approaches to estimate its CCFs;

(ee) derivative instruments or transactions that expose the bank to counterparty credit risk be calculated in accordance with the relevant directives and requirements specified in subregulations (15) to (19);

(ff) exposures to corporate institutions, sovereigns or banks be based upon a complete economic cycle, provided that-

(i) the time period on which the EAD amount is based shall in no case be less than seven years;

(ii) the EAD estimates shall be based on a default-weighted average and not a time-weighted average amount;

(gg) retail exposures be based upon a data observation period of no less than five years, provided that the bank may with the prior written approval of the Authority place more reliance on recent data when the said data better reflect likely draw-downs in respect of the bank's retail exposures;

(ii) shall be an estimate of the long-run default-weighted average EAD amounts in respect of similar eligible facilities and borrowers over a sufficiently long period of time;

(iii) shall appropriately incorporate any correlation between the default frequency and the extent of EAD amounts;

(iv) shall appropriately incorporate the effects of downturns in the economy, that is, the risk drivers of the bank's internal model or the bank's internal data or external data shall incorporate the cyclical nature of each facility;

(v) shall be based upon-

(aa) a 12-month fixed-horizon approach, that is, for each relevant observation in the reference data set, the bank's default outcomes shall be linked to relevant obligor and facility characteristics twelve months prior to default;

(bb) a population of exposures that closely matches or is at least comparable to the bank's existing exposures and lending standards;

(cc) a sufficient number of exposures and data periods that will ensure accurate and robust estimates of EAD amounts;

(dd) economic and market conditions that are relevant and current;

(ee) criteria that are plausible and intuitive;

(ff) reference data that appropriately reflect the obligor, facility and bank management practice characteristics of the respective eligible exposures to which the estimates are applied, that is, EAD estimates applied to particular eligible exposures shall, for example, not be based on data that comingle the effects of disparate characteristics or data from exposures that exhibit different characteristics, such as, for example, the same broad product grouping but different customers that are managed differently by the bank;

(gg) reference data that include accrued interest, other due payments and limit excesses, that is, the bank's EAD reference data shall not, for example, be capped to the principal amount outstanding or any facility limit;

(hh) appropriate homogenous segments, that is, the bank shall ensure that its EAD estimates are not, for example, essentially based upon, or partly based upon:

(i) SME/midmarket data being applied to large corporate borrowers or obligors;

(ii) Data from commitments with substantially low unused limit availability being applied to facilities with substantially large unused limit availability;

(iii) Data from borrowers or obligors identified as problematic at reference date, such as, for example, customers who are delinquent, watch listed by the bank, subject to bank-initiated limit reductions, blocked from further drawdowns or subject to other types of collections activity, being applied to borrowers or obligors that are fully current with no known problems;

(iv) Data affected by changes in obligors' mix of borrowing and other credit-related products over the observation period;

(ii) an estimation technique that performs well in out-of-sample tests;

(vi) shall appropriately take into consideration all relevant and material information;

(vii) shall be based upon the definition of default, specified in regulation 67;

(viii) may take into account data from external sources, including pooled data, provided that-

(aa) the EAD estimates shall represent long-run experience;

(bb) when the bank bases its estimates on alternative measures of central tendency, such as, for example, the median or a higher percentile estimate, or only on ‘downturn’ data, the bank shall ensure that its estimates do not fall below a conservative estimate of the relevant long-run default-weighted average EAD for similar eligible facilities;

(ix) shall be based upon historical experience and empirical evidence;

(x) shall be reviewed on a regular basis, but not less frequently than once a year, or when material new information is obtained;

(xi) shall be based upon comprehensive policies, systems and procedures, which policies, systems and procedures shall be adequate-

(aa) to prevent further drawings in circumstances short of payment default, such as covenant violations or other technical default events;

(bb) to monitor, on a daily basis, facility amounts and current outstanding amounts against committed lines;

(cc) to monitor any changes in outstanding amounts per borrower, and per risk grade;”;

(ssssss) by the substitution in subregulation (13)(d)(i)(A) for subitem (i) of the following subitem:

“(i) eligible or permitted exposures to corporate institutions, sovereigns or banks calculate its own estimates of probability-of-default (“PD”), loss-given-default (“LGD”), exposure-at-default (“EAD”) and effective maturity ("M") in respect of each relevant borrower grade or credit exposure, provided that-

(aa) the bank shall comply with the relevant minimum requirements specified in respect of the said risk components in subregulations (11)(b) and (11)(d) above and in this subregulation (13);

(bb) the EAD amount related to each relevant eligible or permitted exposure that is used as an input into any relevant risk weight formula as well as for the calculation of any relevant expected loss amount shall be subject to a floor amount equal to the sum of-

(i) the relevant on-balance-sheet amount; and

(ii) 50 per cent of the bank's relevant off-balance-sheet exposure based upon the relevant CCFs specified in subregulation (6) read with subregulation (8);

(cc) the bank shall not apply the advanced IRB approach in respect of:

(i) any general corporate exposure to a person, entity or institution belonging to a group of persons, entities or institutions of which the total consolidated annual revenues reported in the group audited financial statements exceed such amount as may be directed in writing by the Authority, calculated in the manner directed in writing by the Authority;

(ii) any exposure to a bank, as defined in subregulation (8), securities firm or financial institution, including any insurance company or any other relevant financial institution that falls within the ambit of the corporate asset class;";

(tttttt) by the substitution in subregulation (13)(d)(i)(A) for subitem (iii) of the following subitem:

"(iii) equity exposures apply the relevant requirements specified in subregulations (6)(j) and (8)(j) read with the relevant requirements specified in regulations 31 and 38;";

(uuuuuu) by the substitution in subregulation (13)(d) for subparagraph (ii) of the following subparagraph:

"(ii) Corporate, sovereign and bank exposures

A bank that adopted the advanced IRB approach for the measurement of the bank's exposure to credit risk shall calculate its risk-weighted assets in respect of eligible or permitted corporate, sovereign or bank exposures through the application of the relevant formulae and risk components specified in subregulation (11)(d)(ii) above, provided that-

(A) when the bank calculates the EAD amount of a particular eligible or permitted exposure, the bank may in the case of undrawn commitments make use of direct estimates of total facility EAD or multiply the relevant committed but undrawn amount by the bank's own internally estimated credit-conversion factors in respect of the bank's off-balance-sheet exposures, provided that-

(i) when the credit-conversion factor of the said off-balance-sheet exposure is equal to 100 per cent in terms of the provisions of the foundation IRB approach, the bank shall apply the said credit-conversion factor of 100 per cent;

(ii) the bank shall comply with the relevant requirements relating to the use of own estimates of EAD specified in paragraph (b)(v)(D) above;

(iii) when the bank has securitised only the drawn balances of revolving facilities, the bank shall continue to maintain the relevant required amount of capital and reserve funds against the relevant undrawn balances associated with the said securitised exposures.

(B) the bank shall calculate the relevant required effective maturity of each relevant exposure in accordance with the respective requirements specified below, provided that the Authority may, subject to such conditions as may be specified in writing by the Authority, allow banks that adopted the advanced IRB approach for the measurement of the bank's exposure to credit risk to apply an effective maturity equal to 2,5 years in respect of specified exposures to small domestic corporate borrowers:

(i) In the case of an exposure with an original maturity of more than or equal to one year, which exposure has determinable cash flows, the effective maturity of the exposure shall be equal to the higher of-

(aa) one year; or

(bb) the remaining effective maturity of the exposure, which remaining effective maturity shall be calculated in years through the application of the formula specified below, subject to a limit of five years.

That is, the effective maturity (M) of the respective exposures envisaged in this sub-item (i) shall be subject to a floor of one year and a cap of five years, calculated through the application of the formula specified below:

$$M = \sum_t t * CF_t / \sum_t CF_t$$

where:

M is the effective maturity of the relevant exposure

CF_t is the relevant cash flows, that is, the relevant principal amount, interest payments and fees, contractually payable by the obligor in period t

Provided that-

(i) the effective maturity of transactions subject to a master netting agreement shall be calculated in accordance with the relevant requirements specified in sub-item (iv) below;

(ii) when the bank is unable to calculate the effective maturity of the respective contractual payments in accordance with the formula and requirements specified hereinbefore, the effective maturity shall be equal to the maximum remaining time, in years, available to the borrower or obligor to fully discharge its respective contractual obligations, that is, the respective amounts related to the principal amount, the related interest and fees, in terms of the relevant loan agreement.

(ii) In the case of transactions or exposures with an original maturity of less than one year, other than exposures in terms of which an obligor obtains ongoing finance from the relevant bank, which first-mentioned transactions or exposures may, for example, arise from fully collateralised or nearly fully collateralised capital market transactions such as OTC derivative transactions or margin lending agreements, or a repo-style transaction such as a repurchase or resale agreement or a securities lending or borrowing transaction, in respect of which the documentation related to the relevant transaction or exposure provides for and requires daily remargining, the effective maturity of the transaction or exposure shall be equal to the higher of-

(aa) one day; or

(bb) the remaining effective maturity of the exposure, calculated in accordance with the formula and relevant requirements specified in sub-item (i)(bb) hereinbefore.

Provided that-

(i) the effective maturity of transactions subject to a master netting agreement shall be calculated in accordance with the relevant requirements specified in sub-item (iv) below;

(ii) the relevant documentation related to the said transaction or exposure shall require daily revaluation;

(iii) the relevant documentation related to the said transaction or exposure shall make provision for the prompt liquidation or setoff of collateral in the event of default or failure to remargin;

(iv) the provisions of this sub-item (ii) shall also apply to any relevant short-term self-liquidating trade transaction, import and export letters of credit or similar transactions, in respect of which the bank shall apply the relevant actual remaining maturity related to the transaction;

(v) the provisions of this sub-item (ii) shall also apply to any issued or confirmed short-term self-liquidating letters of credit with a maturity below one year;

(vi) subject to such conditions as may be specified in writing by the Authority, in addition to the transactions specified hereinbefore in this sub-item (ii), the Authority may specify other exposures with an original maturity of less than one year that do not form part of a bank's ongoing financing of an obligor to be subject to the provision of this sub-item (ii).

(iii) In the case of revolving exposures, the bank shall calculate the relevant required effective maturity based upon the maximum contractual termination date of the relevant facility, and the bank shall not use the repayment date of any current drawing when the bank calculates the relevant required effective maturity related to any revolving exposure;

(iv) In the case of derivative instruments, transactions or exposures subject to a master netting agreement, the bank shall calculate the relevant required effective maturity as the weighted average maturity of the relevant instruments, transactions or exposures within the netting agreement, and the bank shall use the relevant notional amount of each relevant instrument, transaction or exposure within the netting agreement to calculate the relevant required weighted average maturity, provided that in the case of instruments, transactions or exposures falling within the ambit of-

(aa) sub-item (i), the effective maturity of the relevant exposure shall be equal to the higher of-

(i) one year; or

(ii) the remaining effective maturity of the relevant exposure, subject to a limit of five years;

(bb) sub-item (ii), instead of a minimum effective maturity of one day specified in sub-item (ii), the bank shall apply to the relevant calculated average effective maturity a floor equal to the minimum holding period specified in subregulation (9)(b)(xiv)(A) for the relevant transaction type, provided that when more than one transaction type is contained within the relevant master netting agreement, the bank shall apply to the relevant calculated average effective maturity a floor equal to the highest relevant specified holding period related to the respective transaction types included in the relevant master netting agreement;

(v) In the case of any other relevant transaction or exposure not included in sub-items (i) to (iv) hereinbefore, the bank shall assign to the said transaction or exposure an effective maturity of 2,5 years, unless the exposure is subject to further commitment, that is, a repurchase or resale agreement, in which case the bank shall assign to the said exposure an effective maturity of six months, that is, M = 0.5.";

(vvvvvv) by the substitution in subregulation (13)(d)(iii) for item (B) of the following item:

"(B) In the case of exposures relating to high-volatility commercial real estate, a bank shall apply the asset correlation formula specified below instead of the asset correlation formula that would otherwise apply to corporate exposure.

$$\text{Correlation (R)} = 0.12 \cdot \frac{\left(1-e^{-50 \cdot PD}\right)}{\left(1-e^{-50}\right)} + 0.30 \cdot \left(1 - \frac{\left(1-e^{-50 \cdot PD}\right)}{\left(1-e^{-50}\right)}\right)$$

";

(wwwwww) by the substitution in subregulation (13)(d) for subparagraph (v) of the following subparagraph:

"(v) Equity exposures

A bank shall calculate its risk-weighted exposure in respect of equity investments in accordance with the relevant requirements of this subregulation (13) read with the relevant requirements specified in subregulations (6) and (8) read with the relevant requirements specified in regulations 31 and 38, provided that no investment in a significant minority or majority owned or controlled commercial entity, which investment amounts to less than 15 per cent of the sum of the bank's issued common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds, as reported in items 41, 65 and 78 of the form BA 700, shall be assigned a risk weight lower than 100 per cent.";

(xxxxxx) by the substitution in subregulation (13)(d)(vi)(B) for subitem (ii) of the following subitem:

"(ii) a revolving facility the EAD amount shall be equal to the amount of the purchased receivable **plus** 40 per cent of any undrawn purchased commitments **minus** the capital requirement relating to the risk of dilution, that is, in respect of undrawn purchased commitments, the bank shall not use its own estimate of the EAD amount;";

(yyyyyy) by the substitution in subregulation (13)(d)(vi)(D) for subitem (ii) of the following subitem:

"(ii) shall in the case of undrawn amounts in respect of a committed purchased facility be the same value as for drawn amounts, provided that the facility shall contain effective covenants, early amortisation triggers or other features that protect the bank against a significant deterioration in the quality of the future receivables that the bank is required to purchase over the facility's term;";

(zzzzzz) by the insertion in subregulation (13)(d)(vi) of the following item:

"(E) the bank may apply the advanced IRB approach for the measurement of the bank's exposure to credit risk arising from purchased corporate receivables only in relation to exposures to individual corporate obligors eligible for the calculation of the bank's risk weighted exposure amount in terms of the advanced IRB approach.";

(aaaaaaa) by the substitution for the heading of subregulation (14) of the following heading:

"(14) Credit risk mitigation: advanced IRB approach";

(bbbbbbb) by the substitution in subregulation (14)(b)(ii) for the introductory words preceding item (A) of the following words:

"When a bank that adopted the advanced IRB approach for the measurement of the bank's exposure to credit risk obtains collateral in respect of the bank's exposure to corporate institutions, sovereigns or banks, the bank may in all relevant cases calculate its own LGD ratios in respect of the said protected exposure, provided that-";

(ccccccc) by the substitution in subregulation (14)(b)(ii) for item (C) of the following item:

"(C) when the bank wishes to recognise the effect of a master netting agreement in respect of its repurchase and resale agreements concluded with corporate institutions, sovereigns or banks, the bank shall calculate the relevant required adjusted exposure amount, denoted by E*, in accordance with the relevant requirements specified in subregulation (9)(b)(ix) above, which adjusted exposure amount shall be deemed to represent the exposure's EAD amount to calculate the bank's relevant exposure to counterparty credit risk, provided that-

(i) the bank may in relevant cases calculate its own estimate of LGD in respect of the relevant unsecured portion of the bank's relevant exposure to counterparty credit risk;

(ii) in all relevant cases, in addition to the bank's exposure to counterparty credit risk, the bank shall also calculate the relevant required amount of capital and reserve funds relating to the bank's exposure to credit risk or market risk arising from the relevant underlying securities in the master netting agreement;";

(ddddddd) by the substitution in subregulation (14)(b)(ii) for item (D) of the following item:

"(D) irrespective of its credit rating, a resecuritisation instrument shall in no case constitute an eligible instrument for risk mitigation purposes in terms of these Regulations;";

(eeeeeee) by the insertion in subregulation (14)(b)(ii) of the following item (E):

"(E) the bank shall in the case of any fully secured corporate exposure, that is, when the value of the collateral after the application of any relevant haircut exceeds the value of the relevant corporate exposure, apply to the relevant secured corporate exposure the LGD floor specified in table 1 below:

Table 1

Type of eligible collateral	LGD floor
Financial collateral	0%
Receivables	10%
Commercial or residential real estate	10%
Other physical collateral	15%

";

(fffffff) by the insertion in subregulation (14)(b)(ii) of the following item (F):

"(F) the bank shall in the case of any relevant partially secured corporate exposure calculate a weighted average of the unsecured LGD floor for the unsecured portion of the corporate exposure and the secured LGD floor for the secured portion of the corporate exposure, in accordance with the formula specified below:

$$Floor = LGD_{U\,floor} \cdot \frac{E_U}{E \cdot (1 + H_E)} + LGD_{S\,floor} \cdot \frac{E_S}{E \cdot (1 + H_E)}$$

where:

$LGD_{U\,floor}$ and $LGD_{S\,floor}$ are the relevant floor values for fully unsecured and fully secured corporate exposures respectively, as specified hereinbefore.";

(ggggggg) by the substitution in subregulation (14)(c)(i) for item (C) of the following item:

"(C) shall not in the calculation of the bank's risk-weighted exposure reflect the effect of double default, that is, the adjusted risk weight relating to a particular exposure shall not be less than a comparable direct exposure to the relevant guarantor,";

(hhhhhhh) by the substitution in subregulation (14)(c)(ii) for item (A) of the following item:

"(A) the guarantee shall comply with the relevant minimum requirements specified in subregulation (7)(c)(iv), (11)(b)(v) and (11)(b)(vi) above;";

(iiiiiii) by the substitution in subregulation (14)(c)(ii) for item (C) of the following item:

"(C) for purposes of calculating the minimum required amount of capital and reserve funds of a branch in terms of the provisions of the Banks Act, 1990, read with these Regulations, no guarantee received from the parent foreign institution or any other branch of the parent foreign institution in respect of an exposure incurred by the branch in the Republic shall be regarded as an eligible guarantee;";

(jjjjjjj) by the insertion in subregulation (14)(c)(ii) of the following item (D):

"(D) when the bank applies the standardised approach in respect of any direct exposure to a guarantor, the bank shall recognise any relevant guarantee obtained from the guarantor by also applying the relevant standardised approach risk weight to the relevant portion of the exposure covered by the guarantee received from the relevant guarantor;";

(kkkkkkk) by the insertion in subregulation (14)(c)(ii) of the following item (E):

"(E) when the bank applies the foundation IRB approach in respect of any direct exposure to a guarantor, the bank shall recognise any relevant guarantee obtained from the guarantor by determining the risk weight for the comparable direct exposure to the guarantor in accordance with the relevant requirements specified in the foundation IRB approach in subregulation (11) read with subregulation (12).";

(lllllll) by the substitution in subregulation (14)(c)(iii)(A) for subitem (i) of the following subitem:

"(i) shall reflect the risk mitigation effect of the guarantee by way of an adjustment to either the PD ratio or LGD ratio of the relevant exposure, provided that, whichever option the bank chooses, the bank shall apply the adjustments to the PD ratio or LGD ratio in a consistent manner; or";

(mmmmmmm) by the substitution in subregulation (14)(c)(iii)(A) for subitem (ii) of the following subitem:

"(ii) may reflect the risk mitigation effect of the guarantee in accordance with the relevant requirements relating to the recognition of guarantees in terms of the foundation IRB approach specified in subregulation (12)(d) above.";

(nnnnnnn) by the substitution in subregulation (14)(c)(iii) for item (B) of the following item:

"(B) protection in the form of a guarantee in respect of a retail exposure or pool of retail exposures, the bank may reflect the risk reducing effect of the guarantee through an adjustment to the relevant PD ratio or LGD ratio, provided that, whichever option the bank chooses, the bank shall apply the relevant adjustments to PD or LGD in a consistent manner in respect of a given type of guarantee, and over time.";

(ooooooo) by the deletion in subregulation (14)(c)(iii) of item (C);

(ppppppp) by the substitution in subregulation (14)(d)(i) for item (C) of the following item:

"(C) shall not in the calculation of the bank's risk-weighted exposure reflect the effect of double default, that is, the adjusted risk weight relating to a particular exposure shall not be less than a comparable direct exposure to the relevant protection provider,";

(qqqqqqq) by the substitution in subregulation (14)(d)(ii) for item (B) of the following item:

"(B) the bank shall have in place a comprehensive policy and criteria in respect of the types of protection providers acceptable to the bank for risk mitigation purposes;";

(rrrrrrr) by the insertion in subregulation (14)(d)(ii) of the following item (C):

"(C) for purposes of calculating the minimum required amount of capital and reserve funds of a branch in terms of the provisions of the Banks Act, 1990, read with these Regulations, no protection obtained from the parent foreign institution or any other branch of the parent foreign institution in respect of an exposure incurred by the branch in the Republic shall be regarded as eligible protection;";

(sssssss) by the insertion in subregulation (14)(d)(ii) of the following item (D):

"(D) when the bank applies the standardised approach in respect of any direct exposure to a protection provider, the bank shall recognise any relevant protection obtained from the protection provider by also applying the relevant standardised approach risk weight to the portion of the exposure covered by the relevant eligible credit derivative instrument;";

(ttttttt) by the insertion in subregulation (14)(d)(ii) of the following item (E):

"(E) when the bank applies the foundation IRB approach in respect of any direct exposures to a protection provider, the bank shall recognise any relevant protection obtained from the protection provider by determining the risk weight for the comparable direct exposure to the protection provider in accordance with the relevant requirements specified in the foundation IRB approach in subregulations (11) and (12);";

(uuuuuuu) by the insertion in subregulation (14)(d)(ii) of the following item (F):

"(F) when the bank obtained the prior written approval of the Authority to use its own estimates of LGD, the bank may recognise the risk mitigating effects of any first-to-default credit derivative instrument, but the bank shall in no case recognise the risk mitigating effects of any second-to-default or any more generally nth-to-default credit derivative instrument.";

(vvvvvvv) by the substitution in subregulation (14)(d)(iii)(A) for subitem (i) of the following subitem:

"(i) shall reflect the risk mitigation effect of the protection by way of an adjustment to either the PD ratio or LGD ratio of the relevant exposure, provided that, whichever option the bank chooses, the bank shall apply the adjustments to the PD ratio or LGD ratio of the exposure in a consistent manner; or";

(wwwwwww) by the substitution in subregulation (14)(d)(iii)(A) for subitem (ii) of the following subitem:

"(ii) may reflect the risk mitigation effect of the protection in accordance with the relevant requirements relating to the recognition of credit-derivative instruments in terms of the foundation IRB approach specified in subregulation (12)(e) above.”;

(xxxxxxx) by the substitution in subregulation (14)(d)(iii) for item (B) of the following item:

“(B) protection in respect of a retail exposure or pool of retail exposures, the bank may reflect the risk reducing effect of the protection through an adjustment to the relevant PD ratio or LGD ratio, provided that the bank shall apply the relevant adjustment to the PD ratio or LGD ratio in a consistent manner in respect of a given type of guarantee, and over time.”;

(yyyyyyy) by the deletion in subregulation (14)(d)(iii) of item (C);

(zzzzzzz) by the deletion in subregulation (14) of paragraph (f);

(aaaaaaaa) by the substitution in subregulation (15)(b) for subparagraph (i) of the following subparagraph:

“(i) the bank’s exposure to counterparty credit risk, when the bank purchases credit derivative protection against a banking book exposure or against an exposure to counterparty credit risk, the bank shall in respect of the hedged exposure calculate its required amount of capital and reserve funds in accordance with the relevant requirements relating to credit derivative instruments specified in subregulations (9)(d), (12)(e) and (14)(d), that is, in accordance with the relevant substitution requirements;”;

(bbbbbbbb) by the substitution in subregulation (19)(a) for subparagraph (ix) of the following subparagraph:

“(ix) may in respect of any OTC derivative transaction or contract subject to novation or a legally enforceable bilateral netting agreement recognize the effect of the said novation or netting agreement in accordance with the relevant requirements specified in subregulation (18) above.”;

(cccccccc) by the insertion in subregulation (20)(b) of the following subparagraph:

“(iii) any unsettled exposure amount that does not appear on the balance sheet due to the application of rules related to settlement date accounting, apply to the said unsettled exposure amount a credit conversion factor of 100 per cent.”;

(dddddddd) by the substitution for subregulation (21) of the following subregulation:

“(21) EXPECTED LOSS

A bank that adopted the IRB approach for the measurement of the bank’s exposure to credit risk shall calculate an aggregate amount in respect of the bank's expected losses, which aggregate expected loss amount-

(a) shall exclude any expected losses in respect of-

(i) credit exposures arising from a securitisation scheme;

(b) shall be determined by multiplying the expected loss ratio relating to a particular credit exposure with the relevant EAD amount, that is, unless specifically otherwise provided:

Expected loss amount = PD * LGD * EAD

(c) shall, based on the aforesaid, in the case of-

(i) credit exposures not in default related to-

(A) sovereigns, banks and corporate institutions, other than any exposure mapped into the standardised risk grades specified in subregulation (11)(d)(iii)(C); and

(B) the bank's retail portfolios,

be calculated by multiplying the exposure's relevant PD ratio with its LGD ratio;

(ii) credit exposures in default related to corporate institutions, sovereigns, banks and the bank's relevant retail portfolios, be calculated-

(A) based upon the specified LGD ratios and relevant requirements specified in subregulation (11) in relation to exposures subject to the foundation IRB approach; and

(B) by using the bank's best estimate of expected loss in respect of exposures subject to the advanced IRB approach envisaged in subregulation (13);

(iii) exposures relating to specialised lending mapped into the standardised risk grades specified in subregulation (11)(d)(iii)(C), excluding exposures relating to high-volatility commercial real estate, be calculated by multiplying the relevant EAD amount with the minimum required capital adequacy ratio specified in accordance with the relevant provisions of regulation 38(8)(b), and the risk weights specified in table 1 below:

Table 1

Rating grade				
Strong	**Good**	**Satisfactory**	**Weak**	**Default**

5%	10%	35%	100%	625%

(iv) exposures relating to high-volatility commercial real estate mapped into the standardised risk grades specified in subregulation (11)(d)(iii)(C), be calculated by multiplying the relevant EAD amount with the minimum required capital adequacy ratio specified in accordance with the relevant provisions of regulation 38(8)(b), and the risk weights specified in table 1 below:

Table 1

Rating grade				
Strong	**Good**	**Satisfactory**	**Weak**	**Default**
5%	5%	35%	100%	625%

".

Amendment of regulation 24 of the Regulations

3. Regulation 24 of the Regulations is hereby amended:

(a) by the deletion in subregulation (3) of paragraph (d);

(b) by the renumbering in subregulation (3) of paragraph (e) as paragraph (d);

(c) by the deletion of subregulation (5);

(d) by the substitution in subregulation (6)(e) for subparagraph (iii) of the following subparagraph:

"(iii) the exposure value to any single counterparty shall be the relevant gross jump-to-default amount calculated in accordance with the relevant requirements specified in the Prudential Standard on Market Risk issued by the Authority, provided that the bank or controlling company shall calculate the exposure value amount-

(A) without the application of any relevant specified risk weight; and

(B) by assigning a loss-given-default ratio of 100 per cent to all relevant instruments;";

(e) by the substitution in subregulation (6)(e) for subparagraph (iv) of the following subparagraph:

"(iv) when the bank or controlling company calculates the relevant credit exposure amount to be included in terms of the provisions of this subregulation (6), the bank or controlling company shall not apply any maturity adjustment envisaged in the Prudential Standard on Market Risk, issued by the Authority, to the said credit exposure amount;";

(f) by the substitution in subregulation (6)(e) for subparagraph (v) of the following subparagraph:

"(v) in the case of trading book positions to a group of connected counterparties, the bank or controlling company shall calculate the exposure value as the sum of all relevant positive gross jump-to-default amounts, that is, all relevant net long positions, for each relevant counterparty within that group;";

(g) by the deletion in subregulation (6)(e) of subparagraphs (vi) and (vii);

(h) by the renumbering in subregulation (6)(e) of the remaining subparagraphs as subparagraphs (vi) to (xiii);

(i) by the substitution in subregulation (6)(e) for the renumbered subparagraph (ix), previously subparagraph (xi), of the following subparagraph:

"(ix) in the case of positions hedged by a credit derivative instrument, the bank or controlling company-

(A) may recognise the hedge when the underlying of the hedge and the position hedged comply with the relevant requirements specified in subparagraph (viii) hereinbefore, that is, when the short position is junior or of equivalent security to the long position;

(B) shall, subject to the provisions of subparagraph (xi) below, duly account for the subsequent corresponding exposure to the relevant credit protection provider, based on the principles related to the substitution approach set out in paragraph (d) above;";

(j) by the substitution in subregulation (6)(e) for the renumbered subparagraph (xi), previously subparagraph (xiii), of the following subparagraph:

"(xi) when credit protection obtained is in the form of a credit-default swap (CDS), and either the CDS provider or the relevant referenced entity is not a financial entity, the relevant amount assigned to the credit protection provider shall not be the amount by which the exposure to the original counterparty is reduced but, instead, the amount shall be the relevant counterparty credit risk exposure amount calculated in terms of the standardised approach specified in regulation 23(18), provided that, for purposes of this subparagraph (xi), financial entities mean-

(A) regulated financial institutions, defined as a parent and its subsidiaries when any substantial legal entity in the consolidated group is supervised by a regulator that imposes internationally agreed prudential requirements similar to, for example, the prudential requirements specified in the Act and in these Regulations or the Insurance Act, in relation to, for example, prudentially regulated insurance companies, broker/dealers, banks, thrifts and futures commission merchants; and

(B) unregulated financial institutions, defined as legal entities of which the main business includes-

(i) the management of financial assets;

(ii) lending;

(iii) factoring;

(iv) leasing;

(v) provision of credit enhancements;

(vi) securitisation;

(vii) investments;

(viii) financial custody;

(ix) central counterparty services;

(x) proprietary trading; and

(xi) such other financial services activities specified in writing by the Authority or identified by any other relevant supervisor;".

Amendment of regulation 31 of the Regulations

4. Regulation 31 of the Regulations is hereby amended:

(a) by the substitution for subregulation (3) of the following subregulation:

"(3) *Criteria relating to categorisation of equity exposures, subordinated debt and other capital instruments held in a bank's banking book*

Based on the economic substance and not the legal form of an instrument, and irrespective of whether the said instrument makes provision for a voting right, for the purposes of these Regulations, equity exposures held in a bank's banking book-

(a) shall include-

(i) any direct ownership interest in the assets and income of a commercial enterprise or financial institution;

(ii) any indirect ownership interest in the assets and income of a commercial enterprise or financial institution, including-

(A) a derivative instrument held, which derivative instrument is linked to an equity interest;

(B) any instrument or interest held in a corporation, partnership, limited liability company or other type of enterprise that issues ownership interests and which in turn is principally engaged in the business of investing in equity instruments;

(iii) any debt obligation or security, partnership, derivative or vehicle structured with the intent of conveying the economic substance of an equity ownership, including any liability in respect of which the return is linked to that of an equity instrument or share;

(iv) any instrument that-

(A) is not redeemable, that is, the return of invested funds can be achieved only by way of-

(i) the sale of the relevant instrument;

(ii) the sale of the rights to the relevant instrument or investment; or

(iii) the liquidation of the issuer of the relevant instrument; and

(B) does not constitute an obligation of the issuer of the instrument; and

(C) entitles the holder of or investor in the said instrument to a residual claim in respect of the assets or income of the issuer of the said instrument;

(D) exhibits or contains characteristics similar to an instrument that qualifies as common equity tier 1 capital or additional tier 1 capital of a bank, as defined in section 1 of the Act;

(E) constitutes an obligation of the issuer of the instrument and the said obligation or instrument makes provision for any one of the conditions or circumstances specified below:

(i) The issuer of the said instrument has the right to indefinitely defer the settlement of the said obligation.

(ii) The obligation makes provision for or specifies that settlement will or at the discretion of the issuer may take place by way of the issuance of a fixed number of equity shares of the obligor.

(iii) The obligation makes provision for or specifies that settlement will or at the discretion of the issuer may take place by way of the issuance of a variable number of the issuer’s equity shares and, ceteris paribus, any change in the value of the obligation is related to, comparable to, and in the same direction as, the change in the value of a fixed number of the issuer’s equity shares.

(iv) The holder of the instrument has the option to require that the obligation be settled in equity shares.

(v) any other instrument or obligation specified in writing by the Authority;

(b) shall exclude any instrument-

(i) held in any institution or entity of which the assets and liabilities are consolidated with the assets and the liabilities of the reporting bank or controlling company;

(ii) that constitutes a deduction against the common equity tier 1 capital and reserve funds or additional tier 1 capital and reserve funds or tier 2 capital and reserve funds of the reporting bank;

(iii) or exposure or obligation:

(A) risk-weighted at 250 per cent in accordance with the relevant requirements specified in regulation 38(5)(b);

(B) specified in writing by the Authority, which instrument or obligation or any part thereof, in the discretion of and subject to the conditions specified in writing by the Authority, shall be treated as a debt instrument or obligation, instead of equity.”;

(b) by the deletion of subregulation (5);

(c) by the substitution for subregulation (6)(a) of the following subregulation:

“(a) Subject to the provisions of regulation 38(2)(a), a bank that adopted the IRB approach for the measurement of the bank’s exposure to credit risk shall during the linear phase-in period between 2025 and 2027 envisaged in regulation 23(6)(j), calculate its risk-weighted exposure amount and the related required amount of capital and reserve funds in respect of equity exposures held in its banking book in accordance with the relevant requirements related to the market-based approach or PD/LGD approach specified below, or, subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, a combination of the said approaches, provided that-

(i) the bank shall apply a selected approach in a consistent manner;

(ii) each relevant risk category shall be assessed using a single approach;

(iii) all relevant elements of the reporting bank’s exposure to equity risk in the banking book shall be subject to the bank’s risk management policies, processes and procedures, and the relevant requirements specified in this subregulation (6);

(iv) no bank shall be allowed to apply a combination of approaches-

(A) within a specific risk category; or

(B) in respect of the same type of risk, across different risk centres;

(v) any relevant equity exposure that constitutes a deduction against the reporting bank's capital and reserve funds in terms of the provisions of regulations 23(6), 23(8), 23(11), 23(13) or 38(5) shall be included in the form BA 340, and the relevant amount shall be deducted from the bank's capital and reserve funds in accordance with the relevant requirements specified in section 70 of the Act read with the provisions of the aforesaid regulations;

(vi) a bank that adopted the market-based approach-

(A) shall continuously comply with the relevant minimum requirements specified in regulation 23(11)(b)(vii) if the bank wishes to apply the internal model market-based approach specified in paragraph (b)(ii) below;

(B) shall calculate its risk weighted exposure in terms of the simple risk-weight method when the bank is unable to comply with the said minimum requirements relating to the internal model market-based approach specified in regulation 23(11)(b)(vii);

(C) may in the calculation of the bank's risk-weighted exposure recognise the effects of guarantees, but not collateral, obtained in respect of a particular equity position;

(vii) a bank that adopted the PD/LGD approach shall in addition to the requirements specified in paragraph (c) below, comply with the relevant minimum requirements relating to corporate exposure specified in regulations 23(11)(b)(v)(A), 23(11)(b)(v)(B), 23(11)(b)(vi)(A) and 23(11)(d)(ii);

(viii) no investment in a significant minority owned or majority owned or controlled commercial entity, which investment amounts to less than 15 per cent of the sum of the bank's issued common equity tier 1 capital and reserve funds, additional tier 1 capital and reserve funds and tier 2 capital and reserve funds of the reporting bank, as reported in items 41, 65 and 78 of the form BA 700, shall be assigned a risk weight of less than 100 per cent;

(ix) based on such conditions, requirements or criteria as may be specified in writing by the Authority, the Authority may exempt from the provisions of this subregulation (6) specified types of equity exposure;

(x) any investment in an equity instrument shall be valued in accordance with the relevant provisions of Financial Reporting Standards issued from time to time, which value shall also be applied by the reporting bank in the calculation of the bank's relevant risk weighted exposure amount and the related required amount of capital and reserve funds;

(xi) from 1 January 2028, a bank that adopted the IRB approach for the measurement of the bank's exposure to credit risk shall calculate its risk-weighted exposure amount and the related required amount of capital and reserve funds in respect of equity exposures held in its banking book in accordance with the relevant requirements related to the standardised approach specified in regulation 23(6) read with regulation 23(8);

(xii) the bank shall apply the relevant requirements specified in subregulation (7) below to any equity investment in any type of fund, held in the bank's banking book;

(xiii) the bank's total risk weighted exposure amount relating to equity instruments held in the bank's banking book, and the related required amount of capital and reserve funds, shall be equal to the sum of amounts calculated in accordance with the relevant requirements specified in this subregulation (6).".

Amendment of regulation 33 of the Regulations

5. Regulation 33 of the Regulations is hereby amended:

(a) by the substitution for subregulation (2) of the following subregulation:

"(2) The purpose of the return is to, among others-

(a) provide a reconciliation between the bank's relevant business indicator (BI) components and financial items from its 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; and

(b) calculate a bank's relevant minimum required amount of capital and reserve funds for operational risk.";

(b) by the substitution for subregulation (3) of the following subregulation:

"(3) For the measurement of a bank's exposure to operational risk and in order to calculate the bank's relevant required amount of capital and reserve funds for operational risk, the bank shall implement the standardised approach for operational risk and comply with-

(a) the respective requirements specified in subregulation (4) below; and

(b) such further conditions or requirements as may be specified in writing by the Authority.";

(c) by the substitution for subregulation (4) of the following subregulation:

"(4) Standardised approach

(a) Unless specifically otherwise provided in this regulation 33 or directed otherwise in writing by the Authority, the relevant requirements specified in this regulation 33 related to the measurement of a bank's exposure to operational risk and for the calculation of the relevant minimum required amount of capital and reserve funds for operational risk shall, in accordance with the respective requirements specified in regulation 7, apply to all banks and controlling companies on a solo basis and a consolidated basis, provided that-

(i) at the consolidated or sub-consolidated level, the bank or controlling company-

(A) shall appropriately net all the relevant intragroup income and expense items in accordance with the relevant Financial Reporting Standards that may be issued and applied from time to time, to determine, for example, the relevant required fully consolidated or sub-consolidated BI numbers;

(B) shall use the appropriate information in relation to loss experiences, that is, the bank or controlling company, as the case may be, shall not include losses incurred in parts of the group that fall outside the scope of that particular level of consolidation or sub-consolidation;

(ii) when a bank or controlling company is unable to meet the relevant requirements for the calculation of, for example, the Loss Component, the bank or controlling company shall apply such percentage of the Business Indicator Component, which shall not be less than 100 per cent, and such internal loss multiplier, which may be greater than 1, as may be directed in writing by the Authority.

(b) For the measurement of a bank's exposure to operational risk, the bank shall calculate-

(i) the relevant required business indicator and business indicator component in accordance with the relevant requirements specified in paragraph (f) read with paragraph (g) below; and

(ii) the relevant required internal loss multiplier, which is a scaling factor based upon the bank's average historical losses and the business indicator component, in accordance with the relevant requirements specified in paragraph (h) below.

(c) General criteria related to loss data identification, collection and treatment

Since the proper identification, collection and treatment of a bank's internal loss data are essential prerequisites for the appropriate calculation of the bank's relevant minimum required amount of capital and reserve funds for operational risk-

(i) the bank shall ensure that-

(A) its internally generated loss data used in the calculation of the bank's minimum required amount of capital and reserve funds for operational risk-

(i) are based on a minimum observation period of no less than ten years, provided that, when the bank adopts or implements the standardised approach for the first time, the bank may in exceptional cases, with the prior written approval of and subject to such conditions as may be specified in writing by the Authority, use an observation period of less than ten years, but not less than five years, when the bank does not have high-quality data for the preceding ten year period;

(ii) are appropriately mapped into the relevant Level 1 loss event types or categories specified in paragraph (d);

(B) its internal loss data are appropriately linked to the bank's current business lines and business activities, technological processes and risk management policies, processes and procedures;

(C) it has in place duly documented policies, processes and procedures for the identification, collection and treatment of its internal loss data, which policies, processes and procedures shall be subject to-

(i) appropriate and robust validation prior to the use of the bank's loss data for the calculation of the bank's minimum required amount of capital and reserve funds for operational risk;

(ii) regular independent review by the bank's internal and/or external auditors;

(D) it's internal loss data is comprehensive and captures all material activities and exposures from all the bank's relevant subsystems and geographic locations;

(E) it duly documents the bank's criteria for allocating losses to the respective event types specified in table 1 in paragraph (d);

(F) it applies such minimum threshold amount as may be specified in writing by the Authority, in accordance with such requirements or conditions as may be specified in writing by the Authority, for including a loss event in its data collection and calculation of average annual losses;

(G) it collects appropriate information related to, among others-

(i) the relevant gross loss amounts;

(ii) the relevant reference date of an operational risk event, including-

(aa) the date when the event happened or first began, which shall for purposes of these Regulations be referred to as the occurrence date, where relevant and available;

(bb) the date on which the bank became aware of the event, which shall for purposes of these Regulations be referred to as the discovery date; and

(cc) the date or dates when a loss event results in a loss, reserve or provision against a loss being recorded or recognised in the bank's profit and loss (P&L) accounts, which shall for purposes of these Regulations be referred to as the accounting date;

(iii) any recovery of the gross loss amounts, provided that, for purposes of these Regulations any relevant tax effects, such as, for example, a reduction in the corporate income tax liability due to operational losses, shall not be regarded as a recovery of a loss amount;

(iv) descriptive information about the relevant drivers or causes of the loss event;

(H) the level of detail of any descriptive information collected by the bank is commensurate with and appropriate given the size and nature of the gross loss amount;

(I) 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;

(J) operational risk losses related to market risk are treated as operational risk for purposes of calculating the bank’s minimum required amount of capital and reserve funds for operational risk;

(K) it has in place appropriately robust processes to independently review the comprehensiveness and accuracy of the bank’s loss event data;

(ii) the Authority may request or require the bank not only to map its historical internal loss data into the relevant Level 1 categories specified in table 1 in paragraph (d), but to also provide the relevant data to the Authority.

(d) Loss event types

Table 1

Category relating to event type (Level 1)	Definition	Category relating to activity (Level 2)	Examples of activities include: (Level 3)
Internal fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/ discrimination events, which acts involve at least one internal party	Unauthorised activity	Transactions intentionally not reported Unauthorised transaction with monetary loss Intentional misrepresentation of position
		Theft and fraud	Fraud / credit fraud / worthless deposits Theft / extortion / embezzlement / robbery Misappropriation of assets Malicious destruction of assets Forgery Cheque kiting Smuggling Account take-over / impersonation / etc. Tax non-compliance / wilful evasion Bribes / kickbacks Insider trading (not on bank/ firm's account)
External fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party	Theft and fraud	Theft/ robbery Forgery Cheque kiting
		Systems security	Hacking damage Theft of information with monetary loss
Employment practices and workplace safety	Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity / discrimination events	Employee relations	Compensation, benefit, termination issues Organised labour activity
		Safe environment	General liability such as slip and fall Employee health & safety rules events Workers compensation
		Diversity and discrimination	All discrimination types

Category relating to event type (Level 1)	**Definition**	**Category relating to activity (Level 2)**	**Examples of activities include: (Level 3)**
Clients, products and business practices	Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.	Suitability, disclosure and fiduciary	Fiduciary breaches / guideline violations Suitability / disclosure issues (KYC, etc.) Retail customer disclosure violations Breach of privacy Aggressive sales Account churning Abuse of confidential information Lender liability
		Improper business or market practices	Antitrust Improper trade / market practices Market manipulation Insider trading (on bank/ firm's account) Unlicensed activity Money laundering
		Product flaws	Product defects (unauthorised, etc.) Model errors
		Selection, sponsorship and exposure	Failure to investigate client per guidelines Exceeding client exposure limits
		Advisory activities	Disputes over performance of advisory activities
Damage to physical assets	Losses arising from loss or damage to physical assets from natural disaster or other events.	Disasters and other events	Natural disaster losses Human losses from external sources (terrorism, vandalism)
Business disruption and system failures	Losses arising from disruption of business or system failures	Systems	Hardware Software Telecommunications Utility outage / disruptions

Category relating to event type (Level 1)	Definition	Category relating to activity (Level 2)	Examples of activities include: (Level 3)
Execution, delivery and process management	Losses from failed transaction processing or process management, from relations with trade counterparties and vendors	Transaction capture, execution and maintenance	Miscommunication Data entry, maintenance or loading error Missed deadline or responsibility Model / system failure Accounting error / entity attribution error Other task malfunctioning Delivery failure Collateral management failure Reference data maintenance
		Monitoring and reporting	Failed mandatory reporting obligation Inaccurate external report (loss incurred)
		Customer intake and documentation	Client permissions / disclaimers missing Legal documents missing / incomplete
		Customer / client account management	Unapproved access given to accounts Incorrect client records (loss incurred) Negligent loss or damage of client assets
		Trade counterparties	Non-client counterparty misperformance Misc. non-client counterparty disputes
		Vendors and suppliers	Outsourcing Vendor disputes

(e) Additional requirements specifically related to loss data identification, collection and treatment

In order to ensure that the bank develops and maintains a robust operational risk loss data set based upon, among others, the bank's available internal data, the bank shall have in place and maintain robust policies, processes and procedures that address multiple features, such as, for example, an appropriate gross loss definition, matters related to reference dates as envisaged in paragraph (c) hereinbefore, and grouped losses, provided that-

(i) in this regard, for purposes of this regulation 33, unless specifically otherwise stated-

(A) gross loss means a loss before the bank takes into account any form of recovery;

(B) net loss means a loss after the bank takes into account the impact of any form of recovery;

(C) recovery means an independent occurrence, related to the bank's original loss event, separate in time, in which funds or inflows of economic benefits are received by the bank from a third party, such as, for example, a payment received from an insurer, a repayment received from a perpetrator of fraud, or a recovery of a misdirected transfer;

(ii) the bank shall ensure that-

(A) it is at all times able to appropriately identify, among others, the relevant gross loss amounts, non-insurance recoveries, and insurance recoveries for all the bank's relevant operational loss events;

(B) it includes the respective items specified below in the bank's relevant gross loss amount in the bank's loss data set:

(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;

(ii) costs incurred as a consequence of the event, including external expenses with a direct link to the operational risk event, such as, for example, legal expenses directly related to the event and fees paid to advisors, attorneys or suppliers, and costs of repair or replacement, incurred to restore the position that was prevailing before the operational risk event;

(iii) provisions or reserves accounted for in the bank's profit-and-loss account against the potential operational loss impact;

(iv) losses stemming from operational risk events with a definitive financial impact, which may be temporarily booked in transitory and/or suspense accounts and are not yet reflected in the bank's profit-and-loss account, which may be referred to in the bank's records as "pending losses", provided that the bank shall include in its loss data set all relevant material pending losses within a time period commensurate with the size and age of the relevant pending item;

(v) 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-

(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;

(C) it excludes the respective items specified below from the bank's relevant gross loss amount in the bank's loss data set:

(i) costs related to general maintenance contracts on property, plant or equipment;

(ii) internal or external expenditures to enhance the business after the operational risk losses, such as, for example, upgrades, improvements, risk assessment initiatives or enhancements; and

(iii) insurance premiums.

(D) it uses the relevant accounting date for building its loss data set, that is-

(i) the bank shall in the case of legal loss events use a date no later than the date of accounting for including the relevant losses in its loss data set;

(ii) in the case of legal loss events, the date of accounting shall be the date when a legal reserve is established for the probable estimated loss in the bank's profit-and-loss account;

(E) losses caused by a common operational risk event or by related operational risk events over time, but posted to the bank's relevant accounting records over several years, shall be allocated to the relevant corresponding years of the loss database, in line with their accounting treatment;

(F) it is at all times able to appropriately use losses net of recoveries, including, for example, insurance recoveries, in the bank's loss data set;

(G) recoveries are used to reduce losses only after the bank has received any relevant payment and, as such, any receivable amount is not reflected or accounted as a recovery;

(H) on prior written request, the bank is able to provide the Authority with all relevant information related to verification of payments received to net losses;

(f) Matters related to a bank's business indicator

For purposes of this regulation 33, and in particular paragraph (g) below, a bank shall determine the relevant required variables of its Business Indicator in accordance with, among others, the respective requirements specified in table 1 below, provided that the P&L items specified in subparagraphs (i) to (xi) below shall not form part of any relevant BI variable or item:

(i) Income and expense items from insurance or reinsurance businesses.

(ii) Premiums paid and reimbursements/ payments received from insurance or reinsurance policies purchased.

(iii) Administrative expenses, including staff expenses, outsourcing fees paid for the supply of non-financial services, such as, for example, logistical, IT and human resources, and other administrative expenses, such as, for example, IT, utilities, telephone, travel, office supplies and postage.

(iv) Recovery of administrative expenses, including recovery of payments on behalf of customers, such as, for example, taxes debited to customers.

(v) Expenses of premises and fixed assets, except when these expenses result from operational loss events.

(vi) Depreciation/ amortisation of tangible and intangible assets, except depreciation related to operating lease assets, which shall be included in financial and operating lease expenses.

(vii) Provisions/ reversal of provisions, such as, for example, in relation to pensions, commitments and guarantees given, except for provisions related to operational loss events.

(viii) Expenses due to share capital repayable on demand.

(ix) Impairment/ reversal of impairment, such as, for example, in relation to financial assets, non-financial assets, investments in subsidiaries, joint ventures and associates.

(x) Changes in goodwill recognised in profit or loss.

(xi) Corporate income tax, that is, tax based on profits, including current tax as well as deferred tax.

Table 1

BI variable or component	P&L or balance sheet item	Description	Typical sub-items
Interest, lease and dividend	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 income from loans and advances, assets available for sale, assets held to maturity, trading assets, financial leases and operational leases • Interest income from hedge accounting derivatives • Other interest income • Profits from leased assets
	Interest expenses	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	• Interest expenses from deposits, debt securities issued, financial leases, and operating leases • Interest expenses from hedge accounting derivatives • Other interest expenses • Losses from leased assets • Depreciation and impairment of operating leased assets
	Interest earning assets (balance sheet item)	Total gross outstanding loans, advances, interest bearing securities, including government bonds, and lease assets measured at the end of each relevant financial year	
	Dividend income	Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.	
Services	Fee and commission income	Income received from providing advice and services, including income received by the bank as an outsourcer of financial services.	Fee and commission income from: • Securities, including all relevant issuance, origination, reception, transmission, execution of orders on behalf of customers • Clearing and settlement; Asset management; Custody; Fiduciary transactions; Payment services; Structured finance; Servicing of securitisations; Loan commitments and guarantees given; and foreign transactions
	Fee and commission expenses	Expenses paid for receiving advice and services, including outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees	Fee and commission expenses from: • Clearing and settlement; Custody; Servicing of securitisations; Loan commitments and guarantees

		paid for the supply of non-financial services, such as, for example logistical, IT or human resources.	received; and foreign transactions
	Other operating income	Income from ordinary banking operations not included in other BI items but of similar nature, excluding any income from operating leases	• Rental income from investment properties • Gains from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations as envisaged in IFRS 5.37
	Other operating expenses	Expenses and losses from ordinary banking operations not included in other BI items but of similar nature and from operational loss events, excluding any expenses from operating leases	• Losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations as envisaged in IFRS 5.37 • Losses incurred as a consequence of operational loss events, such as, for example, fines, penalties, settlements and replacement cost of damaged assets, which have not been provisioned/reserved for in previous years • Expenses related to establishing provisions/ reserves for operational loss events
Financial	Net profit (loss) on the trading book	• Net profit/loss on trading assets and trading liabilities, including all relevant derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities • Net profit/loss from hedge accounting • Net profit/loss from exchange differences	
	Net profit (loss) on the banking book	• Net profit/loss on financial assets and liabilities measured at fair value through profit and loss • Realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss, including all relevant loans and advances, assets available for sale, assets held to maturity and financial liabilities measured at amortised cost • Net profit/loss from hedge accounting Net profit/loss from exchange differences	

(g) Business Indicator and Business Indicator Component

Based upon, among others, the respective criteria, components and requirements specified in paragraph (f) read with the relevant requirements specified in this paragraph (g), a bank-

(i) shall firstly calculate the relevant required Business Indicator (BI) through the application of the formulae specified below:

BI = ILDC + SC + FC

where:

a solid bar above any relevant term or component in the formulae specified below indicates that that relevant term or component of the formula shall be calculated as the average amount during a period of three years, that is, the average of t, t-1 and t-2, provided that the bank shall firstly calculate the absolute value of all relevant net items, such as, for example, interest income – interest expense, on a year-by-year basis, and only after the bank has calculated the relevant year-by-year net amounts, the bank shall calculate the relevant required average amount during the relevant three-year period

ILDC is the relevant interest, leases and dividend component, calculated as:

$$ILDC = Min\left[\overline{Abs\left(Interest\ Income - Interest\ Expense\right)};\ 2.25\% \cdot \overline{Interest\ Earning\ Assets}\right] + \overline{Dividend\ Income}$$

SC is the relevant services component, calculated as:

$$SC = Max\left[\overline{Other\ Operating\ Income}\ ;\ \overline{Other\ Operating\ Expense}\right] + Max\left[\overline{Fee\ Income}; \overline{Fee\ Expense}\right]$$

FC is the relevant financial component, calculated as:

$$FC = \overline{Abs\left(Net\ P\&L\ trading\ book\right)} + \overline{Abs\left(Net\ P\&L\ banking\ book\right)}$$

Provided that-

(A) the bank's measurement of BI shall appropriately include all relevant BI items and losses that result from acquisitions of relevant businesses and mergers;

(B) when the bank wishes to exclude divested activities from the calculation of the bank's BI, the bank shall submit in writing sufficiently strong detailed justification to demonstrate to the satisfaction of the Authority that there is no similar or residual exposure and that the excluded activity or experience has no relevance to other continuing activities or products of the bank, provided that should the Authority grant the requested approval, the bank shall disclose to the public the relevant exclusions, with appropriate narratives, and such additional information as may be specified in this subregulation (4) or specified in writing by the Authority.

(ii) shall thereafter multiply the relevant Business Indicator, that is, BI, with the marginal coefficients α_i, which marginal coefficients increase with the size of the BI, as specified in Table 1 below, in order to calculate the relevant required Business Indicator Component (BIC).

Table 1

BI ranges and marginal coefficients		
Bucket	**BI range (R billion)**	**BI marginal coefficients (α_i)**
1	Such amount or range and subject to such conditions as may be directed in writing by the Authority	12%
2	Such amount or range and subject to such conditions as may be directed in writing by the Authority	15%
3	Such amount or range and subject to such conditions as may be directed in writing by the Authority	18%

(iii) with a BI greater than or equal to such amount or range and subject to such conditions as may be directed in writing by the Authority-

(A) shall ensure that the bank's data collection related to its operational loss exposure and experience is sound and that the quality and integrity of the bank's operational loss data provide a sound base for the calculation of the bank's required amount of capital and reserve funds for its exposure to operational risk;

(B) shall use its relevant loss data as a direct input into the calculation of the bank's relevant required amount of capital and reserve funds for operational risk,

Provided that a bank that is unable to demonstrate to the satisfaction of the Authority that the quality and integrity of the bank's data provide a sound base for the calculation of the bank's required amount of capital and reserve funds for operational risk-

(i) shall maintain capital and reserve funds for operational risk of at least equal to 100 per cent of the bank's BIC and the Authority may direct the bank in writing to apply an ILM greater than 1; and

(ii) shall disclose to the public the relevant information related to the bank's BIC and ILM for operational risk.

(h) Internal Loss Multiplier

A bank shall calculate the relevant required Internal Loss Multiplier, that is, ILM, which is influenced by the bank's internal operational risk loss experience, and which in turn influences the bank's relevant required amount of capital and reserve funds, through the application of the formula specified below:

$$ILM = Ln\left(\exp(1) - 1 + \left(\frac{LC}{BIC}\right)^{0.8}\right)$$

where:

LC is the Loss Component, equal to 15 times the bank's average annual operational risk losses incurred during the preceding 10 years, provided that, subject to the prior written approval of and such conditions as may be specified in writing by the Authority-

(i) a bank that does not have 10 years of high-quality loss data may use a minimum of five years of data to calculate the bank's relevant required Loss Component;

(ii) a bank that does not have five years of high-quality loss data may, in exceptional cases, be allowed by the Authority to calculate its capital requirement based solely on the bank's BI Component;

(iii) the Authority may allow a bank to calculate its capital requirement using fewer than five years of loss data when the bank's ILM is greater than 1 and the Authority is of the opinion the bank's losses are sufficiently representative of the bank's exposure to operational risk;

(iv) when the bank wishes to exclude certain operational loss events from the Loss Component, because the bank is of the opinion that the relevant loss events are no longer relevant to the bank's risk profile, which may be due to, for example, settled legal exposures or divested businesses, the bank shall submit in writing sufficiently strong detailed justification to demonstrate to the satisfaction of the Authority that there is no similar or residual exposure and that the excluded loss experience has no relevance to other continuing activities or products of the bank, provided that-

(A) the relevant loss event to be considered for exclusion shall be equal to or greater than such threshold amount or percentage of the bank's average losses during a specified period as may be directed in writing by the Authority;

(B) a loss event shall only be considered by the Authority for exclusion from the bank's Loss Component after the loss event, other than losses related to divested activities or businesses, has been included in the bank's operational risk loss database for such a minimum period as may be directed in writing by the Authority;

(C) should the Authority grant the requested approval, the bank shall disclose to the public the relevant total loss amount as well as the relevant number of exclusions, with appropriate narratives;

ILM is equal to one when the bank's loss and business indicator components are equal, provided that-

(i) when the bank's LC is greater than the BIC, the ILM will be greater than one. That is, a bank with losses that are high relative to its BIC shall be required to hold a higher amount of capital and reserve funds, due to the incorporation of internal losses into the calculation methodology applied in terms of this subregulation (4);

(ii) when the bank's LC is lower than the BIC, the ILM will be lower than one. That is, a bank with losses that are low relative to its BIC will be allowed to hold a lower amount of capital and reserve funds, due to the incorporation of internal losses into the calculation methodology applied in terms of this subregulation (4);

(iii) subject to such conditions as may be specified in writing by the Authority, the Authority may, in the Authority's sole discretion, decide to set the value of ILM equal to 1 for all banks or for such a subgroup of banks as may be directed in writing by the Authority.

(i) Required amount of capital and reserve funds for operational risk

A bank shall calculate its relevant required amount of capital and reserve funds for operational risk as the product of the bank's relevant Business Indicator Component, that is, BIC and Internal Loss Multiplier, that is, ILM, calculated in accordance with, among others, the requirements respectively specified in paragraphs (f) and (g) hereinbefore, that is,

$MRC_{OR} = BIC * ILM$

Provided that-

(i) normally the minimum required amount of capital and reserve funds of a bank that falls into bucket 1 will not be influenced by the bank's internal loss data, that is, since the bank's ILM is equal to 1, the bank's relevant required amount of capital and reserve funds for operational risk will be equal to the bank's BIC, that is, =12% * BI, provided that subject to such conditions as may be specified in writing by the Authority, the Authority may allow or require a bank that falls into bucket 1 to include internal loss data into the calculation of the bank's relevant required amount of capital and reserve funds for operational risk;

(ii) subject to such conditions as may be specified in writing by the Authority, the Authority may decide to set the value of ILM equal to 1 for all banks or for such a subgroup of banks as may be directed in writing by the Authority.

(j) Matters related to disclosure

When-

(i) a bank's BI, calculated in accordance with the relevant requirements specified in paragraph (g) hereinbefore, is equal to or greater than such amount or range as may be directed in writing by the Authority; or

(ii) the bank uses internal loss data in the calculation of the bank's relevant required amount of capital and reserve funds for operational risk,

the bank shall disclose to the public-

(A) the bank's annual loss data for each of the relevant ten years or, with the prior written approval of the Authority granted in terms of the provisions of paragraph (h) hereinbefore, less than ten years, included in the bank's calculation of ILM, even when the bank conducts business in a jurisdiction that has elected to apply an ILM equal to one;

(B) the bank's loss data-

(i) on a gross basis; and

(ii) after recoveries and loss exclusions have been taken into consideration;

(C) each of the bank's relevant BI sub-component envisaged in paragraph (g) hereinbefore, for each of the relevant three years of the BI component calculation,

Provided that when the bank excludes internal loss data from the relevant required calculations specified in this subregulation (4), due to the bank's non-compliance with the specified requirements related to loss data, the bank shall disclose to the public such information, including the application of any resulting multipliers, as may be directed in writing by the Authority.";

(d) by the deletion of subregulation (5);

(e) by the deletion of subregulation (6);

(f) by the deletion of subregulation (7);

(g) by the deletion of subregulation (8);

(h) by the deletion of subregulation (9);

(i) by the renumbering of subregulation (10) as subregulation (5).".

Amendment of regulation 38 of the Regulations

6. Regulation 38 of the Regulations is hereby amended:

(a) by the substitution for subregulation (2) of the following subregulation:

"(2) Calculation of aggregate amount of risk-weighted exposure

Subject to the provisions of paragraphs (g) and (h) below, for the measurement or calculation of a bank's aggregate amount of risk-weighted exposure as contemplated in section 70(2), 70(2A) or 70(2B) of the Act, the bank-

(a) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to credit risk:

(i) The standardised approach, using one of the alternative frameworks prescribed in regulation 23(5) read with the relevant provisions of regulations 23(6) to 23(9);

(ii) Subject to the prior written approval of the Authority and such conditions as may be specified in writing by the Authority, the IRB approach, using one of the alternative frameworks prescribed in regulation 23(10) read with the relevant provisions of regulations 23(11) to 23(14);

(iii) Subject to the prior written approval of the Authority and such conditions as may be specified in writing by the Authority, a combination of the approaches envisaged in subparagraphs (i) and (ii) above.

(b) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to counterparty credit risk:

(i) the standardised approach specified in regulation 23(18);

(ii) subject to the prior written approval of and such further conditions as may be specified in writing by the Authority the internal model method specified in regulation 23(19);

(iii) subject to the relevant requirements specified in regulation 23(15) and the prior written approval of and such conditions as may be specified in writing by the Authority, a combination of the approaches envisaged in subparagraphs (i) and (ii) above;

(c) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to credit valuation adjustment:

(i) The basic approach for credit valuation adjustment (BA-CVA);

(ii) Subject to the prior written approval of the Authority and such conditions as may be specified in writing by the Authority, the standardised approach for credit valuation adjustment (SA-CVA);

(d) shall at the discretion of the bank, use one of the alternative methodologies specified below to determine the bank's exposure to market risk:

(i) The simplified standardised approach for market risk set out inthe relevant Prudential Standard issued from time to time;

(ii) Subject to the prior written approval of the Authority and such further conditions as may be specified in writing by the Authority, the standardised approach for market risk set out in the relevant Prudential Standard issued from time to time; or

(iii) Subject to the prior written approval of the Authority and such further conditions as may be specified in writing by the Authority, the internal models approach for market risk set out in the relevant Prudential Standard issued from time to time.

(e) shall use the standardised approach specified in regulation 33(4) to determine the bank's exposure to operational risk;

(f) shall, based on-

(i) the approach adopted by the bank for the measurement of the bank's exposure to credit risk, as envisaged in paragraph (a) above; and

(ii) such conditions as may be specified in writing by the Authority,

use one of the alternative approaches specified below to determine the bank's exposure in respect of securitisation schemes:

(A) the standardised approach prescribed in regulation 23(5) read with the relevant provisions of regulations 23(6)(h) and 23(8)(h) respectively;

(B) the IRB approach prescribed in regulation 23(10) read with the relevant provisions of regulations 23(11) and 23(13) respectively.

(g) shall, in order to reduce potential excessive variability in its calculated amount of risk-weighted exposure and to promote comparability of banks' capital adequacy ratios, within and across jurisdictions-

(i) apply a floor requirement in respect of the bank's calculated amount of risk-weighted exposure, which floor requirement is based upon a specified percentage of risk-weighted exposure calculated in terms of the respective standardised approaches envisaged in paragraphs (a) to (f) hereinbefore read with the requirements specified in paragraph (h) below for the calculation of the bank's aggregate amount of risk-weighted exposure;

(ii) ensure that the bank's calculated amount of risk-weighted exposure used in the calculation of, among others, the bank's respective minimum required amounts of capital and reserve funds or capital adequacy ratios, is in all relevant cases equal to the higher of:

(A) the relevant phase-in percentage of the output floor specified in table 1 in paragraph (h) of total risk-weighted exposure calculated in terms of the respective standardised approaches only, specified in table 1 in paragraph (h) below, which calculated aggregate amount of risk-weighted exposure read with the relevant specified phase-in percentage of the output floor shall for purposes of these Regulations constitute the bank's relevant output floor related to the relevant specified period; and

(B) the total risk-weighted exposure amount calculated in terms of the respective approaches envisaged in paragraphs (a) to (f) hereinbefore, adopted by the bank, with the prior written approval of the Authority in all relevant cases;

(h) shall apply the respective standardised approaches and the relevant percentages specified in table 1 below when the bank calculates the relevant required output floor envisaged in paragraph (g) hereinbefore:

Table 1

	Description of approach	**Output floor component**
(i) Credit risk	The standardised approach for credit risk envisaged in paragraph (a)(i) hereinbefore read with the relevant requirements specified in regulations 23(8) and 23(9), and regulation 23(20) in respect of any failed trades or non-delivery-versus-payment transactions, provided that when the bank calculates the relevant credit risk mitigation amount, the bank shall apply the relevant carrying value when the bank applies the simple approach or comprehensive approach with the relevant specified standardised haircuts	a
(ii) Counterparty credit risk	The standardised approach for counterparty credit risk envisaged in paragraph (b)(i) hereinbefore read with the relevant requirements specified in regulation 23(18) related to the SA-CCR approach for the calculation of the relevant exposure amount related to derivative instruments, which exposure amount shall be multiplied with the relevant borrower risk weight using the standardised approach for credit risk envisaged in regulation 23(8) to calculate the relevant required amount of risk-weighted exposure	b
(iii) Credit valuation adjustment	The standardised approach for credit valuation adjustment (SA-CVA), the Basic Approach for credit valuation adjustment	c

	(BA-CVA) or 100% of a bank's counterparty credit risk capital requirement, as the case may be, as adopted by the bank for the calculation of the bank's relevant exposure to CVA risk	
(iv) Securitisation	Securitisation exposure calculated in terms of the external ratings-based approach (SEC-ERBA), the standardised approach (SEC-SA) or a risk-weight of 1250 per cent, as the case may be, as adopted by the bank for the calculation of the bank's relevant securitisation exposure	d
(v) Market risk	The standardised approach or simplified standardised approach for market risk envisaged in paragraphs (d)(i) and (d)(ii) hereinbefore read with the requirements specified in the relevant Prudential Standard issued from time to time, and the SEC-ERBA, SEC-SA or a risk-weight of 1250 per cent used to determine the default risk charge component for securitisation exposures held in the bank's trading book	e
(vi) Operational risk	The standardised approach for operational risk envisaged in paragraph (e) hereinbefore read with the relevant requirements specified in regulation 33(4)	f
(vii) Aggregate exposure amount	Aggregate amount of risk-weighted exposure calculated in terms of the respective specified approaches	Aggregate output floor = sum of components a to f[1]

Output floor phase-in period	**Output floor phase-in percentage[2; 3]**
From 1 January 2025	60% of aggregate output floor
From 1 January 2026	65% of aggregate output floor
From 1 January 2027	70% of aggregate output floor
From 1 January 2028 onwards	72.5% of aggregate output floor

1. **Prior to the application of any specified phase-in percentage.**
2. **Specified percentage of risk-weighted exposure calculated in terms of the respective standardised approaches envisaged in paragraphs (a) to (f) hereinbefore read with the requirements specified in this table 1.**
3. **Or such percentage as may be directed in writing by the Authority to cap the incremental increase in a bank's total risk-weighted exposure amount resulting from the application of the specified output floor, to a maximum increase of 25 per cent of the bank's risk-weighted exposure amount before the application of the relevant specified floor.";**

(b) by the deletion in subregulation (8)(e)(iv) of item (A);

(c) by the renumbering in subregulation (8)(e)(iv) of items (B) to (F) as items (A) to (E);

(d) by the substitution in subregulation (8)(e)(v) for item (A) of the following item:

“(A) aims to ensure that the specified minimum capital requirement for banks take into account the macro-financial environment in which the banks conduct business;”;

(e) by the substitution in subregulation (8)(f) for subparagraph (iii) of the following subparagraph:

“(iii) when a bank’s respective required capital adequacy ratios are reduced due to write-offs against the capital conservation buffer, the Authority shall impose capital constraints on the bank that shall include capital distribution constraints, in accordance with such requirements as may be directed in writing by the Authority, until the bank’s conservation buffer is restored;”;

(f) by the substitution in subregulation (8)(f) for subparagraph (v) of the following subparagraph:

“(v) outside periods of stress identified by the Authority in writing, the bank shall manage its business in such a manner that its capital conservation buffer for the period 1 January 2019 and thereafter shall be equal to 2,50 per cent;”;

(g) by the substitution in subregulation (8)(g) for subparagraph (vi) of the following subparagraph:

“(vi) shall, based upon the judgement of the Governor and the Authority of the extent of the build-up of system-wide risk, range between zero and 2,5 per cent of a bank’s relevant amount of risk weighted exposure, provided that when the bank’s respective required capital adequacy ratios are reduced due to write-offs against the bank’s capital conservation buffer envisaged in paragraphs (e) and (f) hereinbefore, the Authority shall impose capital constraints on the bank that shall include capital distribution constraints, in accordance with such requirements as may be directed in writing by the Authority, until the bank’s respective buffers are duly restored.”;

(h) by the substitution in subregulation (11) for paragraph (b) of the following paragraph:

“(b) The relevant proceeds of any instrument or share that as a minimum meets or complies with all the conditions specified below may rank as additional tier 1 capital:”;

(i) by the deletion in subregulation (11) of paragraph (c);

(j) by the deletion in subregulation (11) of paragraph (d);

(k) by the substitution in subregulation (12) for paragraph (a) of the following paragraph:

"(a) In the case of any instrument or share that is subordinated to depositors and general creditors-";

(l) by the deletion in subregulation (12) of paragraph (b);

(m) by the deletion in subregulation (12) of paragraph (c);

(n) by the substitution in subregulation (15)(b) for subparagraph (iv) of the following subparagraph:

"(iv) a bank designated by the Authority as a domestic systemically important bank (D-SIB) shall manage its business in such a manner that its leverage ratio is at no stage less than 4 per cent, that is, the bank's leverage multiple, which is the inverse of the bank's leverage ratio, shall at no time exceed 25, or such leverage ratio and multiple as may be determined by the Authority in consultation with the Governor of the Reserve Bank, which leverage ratio shall in no case be less than 3 per cent, provided that the Authority may direct a D-SIB to maintain an additional leverage ratio buffer requirement, calculated in such a manner and subject to such conditions as may be directed in writing by the Authority, which may include conditions related to capital distribution constraints when the bank does not meet its leverage ratio buffer requirement;";

(o) by the substitution in subregulation (15)(b) for subparagraph (v) of the following subparagraph:

"(v) a bank other than a D-SIB shall manage its business in such a manner that its leverage ratio is at no stage less than 4 per cent, that is, the bank's leverage multiple, which is the inverse of the bank's leverage ratio, shall at no stage exceed 25, or such leverage ratio and multiple as may be determined by the Authority in consultation with the Governor of the Reserve Bank, which leverage ratio shall in no case be less than 3 per cent, provided that the Authority may direct a bank other than a D-SIB to maintain an additional leverage ratio buffer requirement, calculated in such a manner and subject to such conditions as may be directed in writing by the Authority, which may include conditions related to capital distribution constraints when the bank does not meet its leverage ratio buffer requirement;";

(p) by the substitution in subregulation (15) for paragraph (e) of the following paragraph:

"(e) Matters related to the calculation of the exposure measure

For the calculation of a bank's leverage ratio, unless specifically provided otherwise in this subregulation (15), the relevant amount to be included in the bank's required exposure measure shall be the relevant gross amount determined in accordance with the relevant Financial Reporting Standards that apply from time to time, provided that-

(i) the bank shall ensure that it has in place sufficiently robust policies, processes and procedures to ensure that the bank adequately captures all relevant sources of leverage, including-

(A) exposure arising from securities financing transactions where the bank's exposure to the counterparty increases as the counterparty's credit quality decreases or securities financing transactions in which the credit quality of the counterparty is positively correlated with the value of the securities received in the transaction, that is, the credit quality of the counterparty falls when the value of the securities falls;

(B) all relevant transactions in derivative instruments and securities financing transactions (SFTs);

(C) all relevant off-balance sheet transactions and exposures; and

(D) all relevant collateral swap trades,

Provided that when the Authority, in the Authority's sole discretion, is of the opinion that the bank does not adequately capture exposures in its leverage ratio exposure measure or the manner in which the bank captures its leverage ratio exposure measure may lead to a potentially destabilising deleveraging process, the Authority may, among others-

(i) direct the bank to enhance its management of leverage;

(ii) impose additional reporting requirements on the bank;

(iii) impose additional capital requirements on the bank; and/ or

(iv) impose a stricter leverage ratio requirement on the bank.

(ii) the bank shall not, unless specially provided otherwise-

(A) reduce its relevant leverage ratio exposure amount to account for any-

(i) physical or financial collateral received;

(ii) guarantee received; or

(iii) any other relevant instrument obtained to mitigate credit risk;

(B) net assets against liabilities or *vice versa*; or

(C) deduct from its leverage ratio exposure measure any relevant liability item.

For example, the bank shall not deduct from its leverage ratio exposure measure any gains/losses on fair valued liabilities or accounting value adjustments on derivative liabilities due to a change in the bank's own credit risk.

(iii) the bank may reduce its leverage ratio exposure measure with the relevant amount related to any item deducted from the bank's Tier 1 capital and reserve funds in terms of the relevant requirements specified in these Regulations, including, for example, regulation 38(5), or any relevant regulatory adjustment other than those related to a liability item.

For example-

(A) when the bank, in accordance with the corresponding deduction approach envisaged in regulation 36, totally or partially deducts from its Common Equity Tier 1 (CET1) capital and reserve funds or Additional Tier 1 capital and reserve funds the amount of an investment held by the bank in the capital of any other bank, financial or insurance entity that falls outside the scope of regulatory consolidation, the bank may also deduct that amount from the bank's leverage ratio exposure measure;

(B) when the bank adopted the internal ratings-based (IRB) approach for the measurement of the bank's exposure to credit risk, and the bank deducts from its CET1 capital and reserve funds the shortfall in eligible provisions relative to expected loss in accordance with the relevant requirements specified in regulation 23(22) read with regulation 38(5), the bank may also deduct that amount from the bank's leverage ratio exposure measure;

(C) when the bank deducts from its Tier 1 capital and reserve funds an amount related to a prudent valuation adjustment (PVA) for exposures to less liquid positions, other than those related to a liability item, the bank may also deduct that amount from the bank's leverage ratio exposure measure.

(iv) in the case of exposures arising from a traditional securitisation scheme, a bank that acts as an originator may exclude from its leverage ratio exposure measure any relevant securitisation exposure that meets the relevant operational requirements related to an effective transfer of risk, envisaged in the exemption notice relating to securitisation schemes, provided that the bank shall include in its leverage ratio exposure measure-

(A) any relevant securitisation exposure retained;

(B) all relevant securitised exposures arising from a traditional securitisation scheme that do not meet the relevant operational requirements related to risk transfer envisaged in the exemption notice relating to securitisation schemes; and

(C) all relevant exposures arising from a synthetic securitisation scheme;

(v) without derogating from the aforesaid, a bank's aggregate leverage ratio exposure measure shall be equal to the sum of the bank's-

(A) on-balance sheet exposures, excluding specified exposures arising from derivative instruments and securities financing transactions

A bank shall include in this category of on-balance sheet exposures all relevant amounts related to its balance sheet assets or items, including any relevant amount related to on-balance sheet derivatives collateral and collateral related to securities financing transactions (SFT), provided that-

(i) the bank shall exclude from this category of on-balance sheet exposures all relevant amounts related to on-balance sheet exposures arising from derivative instruments and SFT assets respectively envisaged in items (B) and (C) below;

(ii) in the case of on-balance-sheet non-derivative assets, the bank shall include in its leverage ratio exposure measure the relevant amount determined in accordance with the respective Financial Reporting Standards that apply from time to time less any relevant deductions related to any associated specific impairments or provisions raised, provided that, as stated hereinbefore, any general provision or general loan loss reserve that has been deducted from the bank's Tier 1 capital and reserve funds may also be deducted from the bank's leverage ratio exposure measure;

(iii) in the case of regular-way purchases or sales of financial assets, that is, purchases or sales of financial assets under contracts for which the contractual terms require delivery of the assets within the time frame generally established by regulation or convention in the market concerned, that have not been settled, which shall for purposes of these Regulations be referred to as "unsettled trades", the bank shall for purposes of its leverage ratio exposure measure, reverse out any offsetting between cash receivables for unsettled sales and cash payables for unsettled purchases of financial assets that may have been recognised under the applicable accounting framework when the bank, for example, adopted and applies trade-date accounting, but the bank may offset between the relevant cash receivables and cash payables, irrespective of whether such offsetting is allowed in terms of the relevant accounting framework that applies form time to time, if the conditions specified below are met:

(aa) the financial assets bought and sold that are associated with cash payables and receivables are fair valued through income and included in the bank's trading book and treated in accordance with the relevant requirements specified in the relevant Prudential Standard issued from time to time for the measurement of a bank's exposure to market risk; and

(bb) the relevant transactions related to the financial assets are settled on a delivery-versus-payment (DVP) basis,

Provided that when the bank applies settlement date accounting, the bank shall comply with the requirements specified in sub-item (iv) below;

(iv) when the bank applies settlement date accounting in relation to its regular-way purchases or sales of financial assets, the bank may offset commitments to pay for unsettled purchases and cash to be received for unsettled sales provided that the bank complies with the requirements specified below:

(aa) the financial assets bought and sold, associated with cash payables and receivables, are fair valued through income and included in the bank's trading book and treated in accordance with the relevant requirements set out in the relevant Prudential Standard issued from time to time for the measurement of a bank's exposure to market risk; and

(bb) the transactions of the financial assets are settled on a DVP basis;

(v) in relation to the bank's cash-management schemes, the bank may include in its leverage ratio exposure amount only the relevant final net amount or single account balance, and not the individual participating customer accounts, if the bank complies with all the relevant requirements specified in regulation 16, provided that when the bank does not comply with the requirements specified in regulation 16, the bank shall include in its leverage ratio exposure measure the respective individual gross balances of the participating customer accounts;

(vi) when a banking, financial, insurance or commercial entity falls outside the scope of regulatory consolidation, the bank shall include in its exposure measure only the relevant amount related to the investment in the capital of such entities, that is, only the relevant carrying value or amount of the investment, instead of the underlying assets and/ or other exposures, provided that any investment in the capital of such entities that is required to be deducted from the bank's tier 1 capital and reserve funds in terms of the provisions of these Regulations may be excluded from the bank's leverage ratio exposure measure, as envisaged in subparagraph (iii) hereinbefore;

plus

(B) derivative exposures

A bank shall include in this category of derivative exposures the relevant replacement cost as well as the relevant potential future exposure amount arising from all derivative exposures, including when the bank sells protection by means of a credit derivative instrument, in accordance with the requirements specified in this item (B), provided that-

(i) as a general rule, unless specifically provided otherwise-

(aa) the bank shall not net collateral received against its derivative exposures, irrespective of whether netting may be permitted in terms of the bank's operative accounting framework or risk-based framework, that is, when the bank calculates its relevant leverage ratio derivative exposure amount, the bank-

(i) shall not reduce the leverage ratio exposure measure by any collateral received from the counterparty;

(ii) shall not reduce the relevant replacement cost related to a derivative exposure with any collateral received;

(iii) shall not reduce the multiplier, which is fixed at one, when calculating the relevant required potential future exposure specified in sub-item (vii), as a result of collateral received;

(bb) the bank may recognise the PFE-reducing effect from the regular exchange of variation margin in relation to the maturity factor in the PFE add-on calculation, as envisaged in sub-item (vii);

(cc) the bank shall gross up its leverage ratio exposure measure by the amount of any relevant derivatives collateral provided when the bank reduced the value of its balance sheet assets in terms of the bank's operative accounting framework as a result of such collateral provided;

(dd) netting across product categories, such as, for example, derivative instruments and SFTs, shall not be permitted when the bank calculates its leverage ratio exposure measure, provided that, when the bank has in place a cross-product netting agreement that complies with the eligibility criteria specified in, the bank may choose to perform netting separately in each relevant product category when all other relevant requirements envisaged in this item (B) for netting are met;

(ee) when the bank sells protection using a credit derivative instrument, the bank shall calculate its relevant leverage ratio exposure measure as 1.4 times the sum of the relevant instrument's replacement cost and the relevant potential future exposure, as set out further in sub-item (ii) below;

(ii) in the case of derivative instruments or transactions not covered by an eligible bilateral netting agreement complying with the respective requirements specified in regulation 23(18)(b), the amount to be included in the bank's leverage ratio exposure measure shall be determined for each relevant instrument or transaction separately, in accordance with the formula specified below:

Leverage ratio exposure measure = alpha * (RC + PFE)

where:

alpha is a scalar or multiplier, equal to 1.4

RC is the relevant required replacement cost calculated in accordance with the formula and the requirements specified in sub-items (iv) and (v) below

PFE is the relevant required potential future exposure amount calculated in accordance with the formula and requirements specified in sub-item (vi) below

(iii) when the bank's exposure arising from a derivative instrument or transaction is covered by an eligible bilateral netting contract that complies with the requirements specified in regulation 23(18)(b), the bank shall apply the formula specified in sub-item (ii) hereinbefore at the relevant netting set level;

(iv) unless specifically provided otherwise, the bank shall calculate the relevant required replacement cost of an instrument, transaction or netting set in accordance with the formula specified below:

$$RC = \max\left\{V - CVM_r + CVM_p, 0\right\}$$

where:

V is the market value of the relevant individual derivative instrument or transaction or of the derivative transactions in a netting set

CVM_r is the relevant cash variation margin received that complies with the respective requirements specified in sub-item (v) below, provided that-

(aa) the amount has not already reduced the market value of the derivative instrument or transaction, that is, V, in terms of the bank's relevant operative accounting framework or standard;

(bb) when the conditions in sub-item (v) below are met, the cash portion of variation margin received may be used to reduce the relevant replacement cost portion of the bank's leverage ratio exposure measure, and the receivable assets from cash variation margin provided may be deducted from the bank's leverage ratio exposure measure as follows:

In the case of cash variation margin-

(i) received, the bank receiving the cash variation margin may reduce the replacement cost, but not the PFE component, of the exposure amount of the relevant derivative asset;

(ii) provided to a counterparty, the bank posting the cash variation margin may deduct the resulting receivable from its leverage ratio exposure measure where the cash variation margin has been recognised as an asset in terms of the bank's relevant operative accounting framework, and instead include the cash variation margin provided in the calculation of the relevant derivative replacement cost

CVM_p is the relevant amount of cash variation margin paid or provided by the bank, and that complies with the respective requirements specified in sub-item (v) below

(v) the bank may regard the cash portion of variation margin exchanged between the bank and its counterparty as a form of pre-settlement payment when the conditions specified below are met:

(aa) In the case of trades not cleared through a qualifying central counterparty (QCCP), the cash received by the recipient counterparty shall not be required to be segregated, and the recipient counterparty is not subject to any restriction by law, regulation, or any agreement with the counterparty to use the cash received at own discretion, that is, the cash variation margin received shall in all respects be equivalent to own cash;

(bb) Variation margin shall be calculated and exchanged between the bank and its counterparty on at least a daily basis, based upon the mark-to-market valuation of the relevant derivative positions, that is, all relevant derivative positions shall be marked-to-market daily and cash variation margin shall be transferred daily to the counterparty or to the counterparty's account, as the case may be, provided that, in this regard, cash variation margin exchanged the morning of the trading day immediately following the day in respect of which the end-of-day market valuation were done in relation to the relevant instruments or transactions, shall be deemed to comply with the requirement specified hereinbefore;

(cc) The variation margin shall be received in a currency specified in the relevant derivative contract, governing master netting agreement (MNA), credit support annex (CSA) to the qualifying MNA or as defined in terms of the relevant netting agreement with a CCP;

(dd) The variation margin exchanged shall be the relevant full amount necessary to extinguish the mark-to-market exposure arising from the derivative contract, subject to the threshold and minimum transfer amounts applicable to the relevant counterparty;

(ee) The relevant derivative transactions and variation margins shall be covered by a single MNA, including any legally enforceable netting agreement that provides legally enforceable rights for set-off, between the legal entities that are the respective counterparties to the relevant derivative transaction, which MNA-

(i) shall explicitly state that the counterparties agree to settle the relevant payment obligations covered by that netting agreement on a net basis, taking into account any variation margin received or provided if a credit event occurs involving either counterparty;

(ii) shall be legally enforceable and effective in all relevant jurisdictions, as envisaged in regulation 23(18)(b), including in the event of default, bankruptcy or insolvency;

(vi) unless specifically provided otherwise, the bank shall calculate the relevant required potential future exposure amount, denoted by PFE, for all relevant derivative instruments or exposures in accordance with the formula specified below:

$$PFE = multiplier * AddOn^{aggregate}$$

Provided that-

(aa) for purposes of the leverage ratio exposure measure, the multiplier for the calculation of the PFE is fixed, at one;

(bb) when the bank calculates the relevant required add-on component, the bank may use the maturity factor specified in regulation 23(18)(a)(iii)(A)(xiv) for all relevant margined transactions;

(cc) since written options create an exposure to the relevant underlying, the bank shall include such written options in the calculation of its leverage ratio exposure measure in accordance with the relevant requirements specified in this subregulation (15), even when such written option may be assigned an amount equal to zero in relation to the relevant exposure at default (EAD) for purposes of calculating the bank's minimum required amount of capital and reserve funds.

(vii) when the bank acts as a clearing member (CM) and offers clearing services to clients, the bank's trade exposures to the central counterparty (CCP) that arise when the bank is obligated to reimburse a client for any losses suffered due to changes in the value of its transactions in the event that the CCP defaults shall be included in the bank's leverage ratio exposure measure by applying the same treatment that applies to any other type of derivative transaction, provided that-

(aa) when a client enters directly into a derivative transaction with the CCP and the bank acting as a clearing member guarantees the performance of its client's derivative trade exposures to the CCP, the bank acting as the CM for the client to the CCP shall calculate and include in its related leverage ratio exposure measure the exposure arising from the guarantee as a derivative exposure, as if it had entered directly into the transaction with the client, including with regard to the receipt or provision of cash variation margin;

(bb) an entity affiliated to the bank acting as a CM may be considered a client if it falls outside the relevant scope of regulatory consolidation at the level at which the relevant leverage ratio is applied, provided that when an affiliate entity falls within the regulatory scope of consolidation, the trade between the affiliate entity and the bank acting as a CM will be eliminated in the course of consolidation but the CM will still have a trade exposure to the CCP, which transaction with the CCP must be included in the CM's leverage ratio exposure measure;

(cc) when, based on a legally enforceable contractual arrangement with the client, the bank acting as a clearing member is not obligated to reimburse the client for any losses suffered in the event that a QCCP defaults, the bank acting as a clearing member is not required to include the resulting trade exposures to the QCCP in its leverage ratio exposure measure;

(dd) when the bank provides clearing services as a "higher level client" within a multi-level client structure, the bank is not required to include in its leverage ratio exposure measure the resulting trade exposures to the CM or to an entity that serves as a higher-level client to the bank, if all the requirements specified below are met:

(i) The offsetting transactions shall be identified by the QCCP as higher-level client transactions and collateral to support them shall be held by the QCCP and/or the CM, as the case may be, under arrangements that prevent any losses to the higher-level client due to the default or insolvency of the CM; the default or insolvency of the CM's other clients; and the joint default or insolvency of the CM and any of its other clients,

That is, upon the insolvency of the clearing member, there shall be no legal impediment, other than the need to obtain a court order to which the client is entitled, to the transfer of the collateral belonging to clients of a defaulting clearing member to the QCCP, to one of more other surviving clearing members or to the client or the client's nominee;

(ii) The bank shall conduct sufficiently robust and sufficiently frequent legal reviews to ensure the bank has a well-founded legally enforceable basis to conclude that, in the event of legal challenge, the relevant courts and administrative authorities would find that the relevant agreements are legal, valid, binding and enforceable under all relevant laws in/ of the relevant jurisdiction(s);

(iii) Relevant laws, regulation, rules, contractual or administrative arrangements shall provide that the offsetting transactions with the defaulted or insolvent CM are highly likely to continue to be indirectly transacted through the QCCP, or by the QCCP, if the CM defaults or becomes insolvent, in which circumstances the higher-level client positions and collateral with the QCCP will be transferred at market value unless the higher-level client requests to close out the relevant position at market value; and

(iv) The bank shall not be obligated to reimburse its client for any losses suffered in the event of default of either the CM or the QCCP;

(viii) in the case of a written credit derivative instrument, that written credit derivative instrument creates a notional credit exposure amount related to the creditworthiness of the relevant reference entity, in addition to the CCR exposure arising from the fair value of the relevant contracts-

(aa) which written credit derivative instrument includes all forms of instruments, including options, by means of which the bank effectively provides credit protection to a person, and is not limited to instruments such as, for example, credit default swaps or total return swaps;

(bb) which exposure amount shall for purposes of the calculation of the bank's leverage ratio exposure measure be treated in a manner consistent with cash instruments, such as, for example, loans or bonds;

(cc) of which the effective notional amount shall be included in the bank's relevant leverage ratio exposure measure, unless the written credit derivative is included in a transaction cleared on behalf of a client of the bank acting as a CM or acting as a clearing services provider in a multi-level client structure, and the transaction meets the relevant requirements specified hereinbefore for the exclusion of the relevant trade exposures to the QCCP or, in the case of a multi-level client structure, the relevant requirements for the exclusion of trade exposures to the CM or the QCCP;

(dd) which effective notional amount shall in all relevant cases be obtained by adjusting the relevant notional amount to reflect the true exposure of contracts that are or may be leveraged or otherwise enhanced by the structure of the relevant transaction;

(ee) which effective notional amount may be reduced by any relevant negative change in the fair value amount that has been incorporated into the calculation of the bank's Tier 1 capital and reserve funds with respect to the written credit derivative instrument, that is, when a written credit derivative instrument, for example, had a positive fair value of 20 on one reporting date and a negative fair value of 10 on a subsequent reporting date, the effective notional amount of the credit derivative may be reduced by 10, but not by 30, provided that when the credit derivative instrument has a positive fair value of five on the subsequent reporting date, the effective notional amount shall not be reduced at all;

(ff) which effective notional amount may be reduced by the effective notional amount of a credit derivative instrument purchased in respect of the same reference entity or name, provided that-

(i) the credit protection purchased through the credit derivative instrument shall be subject to the same or more conservative material terms, such as, for example, the level of subordination, optionality, credit events, reference or other characteristics relevant to the valuation of the relevant derivative instrument, as those in the corresponding written credit derivative instrument;

(ii) the remaining maturity of the credit protection purchased through the credit derivative instrument shall be equal to or greater than the remaining maturity of the written credit derivative instrument;

(iii) the credit protection purchased through the relevant credit derivative instrument shall not be purchased from a counterparty of which the credit quality is highly correlated with the value of the relevant reference obligation;

(iv) when the effective notional amount of the written credit derivative instrument is reduced by any negative change in the fair value reflected in the bank’s Tier 1 capital and reserve funds, the effective notional amount of the offsetting credit protection purchased through a credit derivative instrument shall also be reduced by any resulting positive change in fair value reflected in the bank’s Tier 1 capital and reserve funds;

(v) the credit protection purchased through the credit derivative instrument has not been included in a transaction cleared on behalf of a client or cleared by the bank in its role as a clearing services provider in a multi-level client services structure, as envisaged hereinbefore, and for which the effective notional amount referenced by the corresponding written credit derivative is excluded from the leverage ratio exposure measure;

(vi) two reference names shall be considered to be identical only when they refer to the same legal entity;

(vii) credit protection purchased on a pool of reference names through a credit derivative instrument may offset credit protection sold on individual reference names only when the bank is able to demonstrate to the satisfaction of the Authority that the credit protection purchased is economically and in all material respects equivalent to purchasing credit protection separately on each of the relevant individual names in the pool, that is, when the bank, for example, purchases credit protection on a pool of reference names through a credit derivative instrument, but the credit protection purchased does not cover the entire pool but covers only a subset of the pool, such as in the case of an nth-to-default credit derivative instrument or a securitisation tranche, the bank may not offset the relevant amount against the relevant written credit derivative instrument on the individual reference names;

(viii) purchased credit protection may offset written credit derivatives on a pool of exposures only when the credit protection purchased through the relevant credit derivatives covers the entirety of the subset of the pool on which the credit protection has been sold;

(ix) when the bank purchases credit protection through a total return swap (TRS) and records the net payments received as net income, but does not record offsetting deterioration in the value of the written credit derivative, either through a reduction in the fair value or by an addition to reserves in the bank's Tier 1 capital and reserve funds, the bank shall not offset that credit protection against the effective notional amounts related to the written credit derivative instruments;

(x) when the bank calculates its relevant potential future exposure amount, the bank may exclude from the netting set for the calculation of the PFE the portion of a written credit derivative instrument in respect of which no offsetting is permitted in terms of the provisions of this subregulation 15, because the relevant specified requirements for offsetting are not met, and in respect of which the effective notional amount is included in the bank's leverage ratio exposure measure, if the bank is able to demonstrate to the satisfaction of the Authority that the inclusion of the written credit derivative instrument in the bank's leverage ratio exposure measure at its effective notional amount, and in the required calculation for PFE, will result in an unduly overstatement of the bank's actual leverage ratio exposure measure in relation to written credit derivative instruments;

plus

(C) exposures arising from securities financing transactions (SFT)

A bank shall include in its exposure measure any relevant exposure arising from its securities financing transactions, provided that-

(i) for purposes of this subregulation (15) securities financing transactions include transactions such as repurchase agreements, resale agreements, reverse repurchase agreements, securities lending transactions, securities borrowing transactions, and margin lending transactions, where the value of the respective transactions depends on market valuations and the transactions are often subject to margin agreements;

(ii) in the case of a bank-

(aa) that acts as principal, the bank shall include in its exposure measure the sum of the respective amounts envisaged in subitems (iv) and (v) below;

(bb) that acts as an agent, the bank shall include in its exposure measure the sum of the respective amounts envisaged in subitem (vii) below;

(iii) since leverage essentially remains with the lender of the security in a securities financing transaction, the bank shall reverse any sales-related accounting entry whenever the bank applied sale accounting entries in terms of any relevant accounting framework in respect of its securities financing transactions, that is, irrespective of the bank's accounting framework the bank shall calculate its exposure measure as if its securities financing transactions constitute financing transactions and not sales transactions;

(iv) a bank that acts as principal shall include in its exposure measure the relevant gross amount of assets that relates to securities financing transactions, recognised as assets in accordance with the relevant Financial Reporting Standards issued from time to time, provided that-

(aa) for purposes of this subregulation (15), unless specifically stated otherwise, the bank shall disregard any form of accounting netting, that is, unless specifically stated otherwise in this subregulation (15)(e), the bank shall not, for example, recognise any accounting netting of cash payables against cash receivables;

(bb) in the case of any assets related to securities financing transactions subject to novation and cleared through a QCCP, the bank shall include in its exposure measure the relevant final contractual exposure, that is, the relevant exposure to the QCCP after the process of novation has been applied, since the pre-existing contracts have been replaced by new legal obligations through the process of novation;

(cc) the bank shall only net cash receivables and cash payables with the relevant QCCP if the criteria specified in this sub-item (iv) are met, that is, any form of netting permitted by the QCCP other than the amounts envisaged in and that comply with the relevant criteria specified in this sub-item (iv) shall not be netted when the bank calculates its relevant required leverage ratio exposure measure;

(dd) the bank shall adjust the aforesaid gross amount of assets by excluding from the exposure measure the value of any securities received in terms of a securities financing transaction, when the bank has recognised the securities as assets on its balance sheet, that is, when the bank recognised securities received in terms of a securities financing transaction as assets because the bank, as recipient, has the right to rehypothecate the said securities, but the bank has not done so, and in terms of any relevant accounting standard that may apply, the bank recognised the value of such securities received in terms of the securities financing transaction as assets, the bank shall adjust the aforesaid gross amount of assets by excluding from the exposure measure the value of such securities received;

(ee) notwithstanding the provisions of sub-sub-item (aa) hereinbefore, the bank may measure cash payables and cash receivables in terms of securities financing transactions with the same counterparty on a net basis if all the conditions specified below are met:

(i) the relevant transactions have the same explicit final settlement date, provided that transactions with no explicit maturity or end date and which can be unwound at any time by either party to the transaction shall not be netted for purposes of calculating the bank's required leverage ratio exposure measure;

(ii) the bank's right to set off the amount owed to the counterparty against the amount owed by the counterparty shall be legally enforceable in all relevant jurisdictions, both currently in the normal course of business and in the event of the counterparty's default, insolvency or bankruptcy; and

(iii) the bank and the relevant counterparty intend to settle net, and to settle simultaneously, or the relevant transactions must be subject to a settlement mechanism that results in the functional equivalent of net settlement, that is, the cash flows of the relevant transactions are essentially a single net amount on the settlement date, provided that, to ensure the aforesaid equivalence to a single net amount, both transactions shall be settled through the same settlement system and the settlement arrangements shall be supported by cash and/or intraday credit facilities intended to ensure that settlement of both transactions will occur by the end of the business day and any challenges or difficulty that may arise from the relevant securities legs of the relevant securities financing transactions shall not have an impact on the required completion of the relevant net settlement of the cash receivables and payables, that is, the failure of any single securities transaction in the settlement mechanism may delay settlement of only the matching cash leg or create an obligation to the settlement mechanism, supported by an associated credit facility, provided that when there is a failure of the securities leg of the relevant transaction at the end of the window for settlement in the settlement mechanism, that transaction and its matching cash leg shall be split out from the netting set and shall be treated on a gross basis;

(v) a bank that acts as principal shall include in its exposure measure a specified measure of counterparty credit risk, calculated as the current exposure without an add-on for potential future exposure, as specified below, provided that, for purposes of this subitem (v), the term counterparty includes not only the counterparty to the relevant bilateral repo transaction but also any relevant triparty repo agent that receives collateral in deposit and manages the collateral in the case of triparty repo transactions, that is, securities deposited at triparty repo agents shall be included in the bank's relevant total value of securities and cash lent to a counterparty, denoted by E, up to the amount effectively lent to the counterparty in the relevant repo transaction, provided that in such cases, any excess collateral deposited at triparty agents but that has not been lent out may be excluded from the relevant calculation:

(aa) when the bank has in place a qualifying master netting agreement that complies with all the relevant requirements specified in subitem (vi) below, the said current exposure amount, denoted by E*, shall be equal to the greater of zero and the total fair value of securities and cash lent to a counterparty in respect of all relevant transactions covered by the said qualifying master netting agreement, denoted by $\sum Ei$, less the total fair value amount of cash and securities received from that counterparty for those transactions, denoted by $\sum Ci$, as depicted in the formula specified below:

$$E^* = \max \{0, [\sum E_i - \sum C_i]\}$$

where:

E^* is the relevant current exposure amount

$\sum E_i$ is the total fair value of securities and cash lent to a counterparty for all relevant transactions included in the said qualifying master netting agreement

$\sum C_i$ is the total fair value of cash and securities received from that counterparty for the aforesaid transactions (bb) when the bank does not have a qualifying master netting agreement in place, the said current exposure amount related to transactions with the relevant counterparty shall be calculated on a transaction-by-transaction basis, that is, each relevant transaction shall be treated as its own netting set, as depicted in the formula specified below:

$E_i^* = \max \{0, [E_i – C_i]\}$

where:

E_i^* is the relevant current exposure amount related to the specific transaction with the counterparty, provided that the bank may in relevant cases set E_i^* equal to zero if-

(iv) E_i is the cash lent to a counterparty;

(v) the relevant transaction is treated as its own netting set; and

(vi) the associated cash receivable is not eligible for netting in accordance with the relevant requirements specified in subitem (iv) hereinbefore.

(vi) a bank that acts as principal may recognise the effect of a bilateral master netting agreements in respect of its securities financing transactions on a counterparty-by-counterparty basis, as envisaged in and in accordance with the relevant requirements specified in subitem (v) above, provided that-

(aa) the relevant bilateral master netting agreement-

(i) shall be legally enforceable in each relevant jurisdiction upon the occurrence of an event of default, regardless of whether the counterparty is insolvent or bankrupt;

(ii) shall provide the non-defaulting party with the right to terminate and close out in a timely manner all relevant transactions under the agreement upon an event of default, including in the event of insolvency or bankruptcy of the counterparty;

(iii) shall make provision for the netting of gains and losses on transactions, including the value of any relevant collateral, terminated and closed out in terms of the bilateral master netting agreements, so that a single net amount is owed by one party to the other;

(iv) shall make provision for the prompt liquidation or setoff of collateral upon the event of default; and

(v) all relevant rights envisaged in this sub-sub-item (aa) shall be legally enforceable in each relevant jurisdiction upon the occurrence of an event of default, regardless of the counterparty's insolvency or bankruptcy;

(bb) the bank may apply netting across positions held in the bank's banking book and its trading book only when-

(i) all the relevant transactions are marked to market on a daily basis; and

(ii) all the collateral instruments used in respect of the relevant transactions are recognised as eligible financial collateral in the banking book;

(vii) since a bank that acts as agent in a securities financing transaction-

(aa) generally provides only an indemnity or guarantee to one of the two persons involved in the transaction, and only for the difference between the value of the security or cash its customer has lent and the value of collateral the borrower has provided; and

(bb) the bank is essentially exposed to the counterparty of its customer for only the difference in values instead of the full exposure to the underlying security or cash of the transaction; and

(cc) the bank normally does not own or control the underlying cash or security resource, and as such the bank is unable to leverage the resource,

the bank shall include in its exposure measure only the amounts envisaged in subitem (v) above, provided that-

(i) when the bank is economically further exposed to the underlying security or cash in the transaction, that is, for an amount larger than the aforesaid guarantee for the difference, the bank shall include in its exposure measure the relevant further amount of exposure, equal to the relevant full amount of exposure to the underlying security or cash in the transaction;

(ii) when the bank provides an indemnity or guarantee to both parties involved in the securities financing transaction, that is, the securities lender as well as the securities borrower, the bank shall calculate the relevant amounts related to its leverage ratio exposure measure in accordance with the respective requirements specified in this subitem (vii) separately for each of the relevant counterparties involved in the transaction.

plus

(D) off-balance sheet items

A bank shall include in its leverage ratio exposure measure all relevant off-balance sheet items or exposures, provided that for purposes of this subregulation (15)-

(i) off-balance sheet items or exposures include-

(aa) commitments, including liquidity facilities, whether or not unconditionally cancellable;

(bb) all relevant direct credit substitutes;

(cc) acceptances;

(dd) standby letters of credit; and

(ee) trade letters of credit;

(ii) commitment includes any contractual arrangement that has been offered by the bank and accepted by the client to extend credit, purchase assets or issue credit substitutes, including-

(aa) any such arrangement that may be unconditionally cancelled by the bank at any time without prior notice to the obligor;

(bb) any such arrangement that can be cancelled by the bank if the obligor fails to meet conditions set out in the facility documentation, including conditions that must be met by the obligor prior to any initial or subsequent drawdown arrangement;

(iii) the bank shall convert the relevant committed amount as well as any unconditionally cancellable but undrawn amount related to its off-balance sheet items into credit exposure equivalents by multiplying the envisaged amounts specified in table 1 below with the relevant credit conversion factors specified in table 1 below:

Table 1

Description of off-balance sheet item	**Credit conversion factor**
Direct credit substitutes, such as, for example, general guarantees of indebtedness; standby letters of credit serving as financial guarantees for loans and securities; acceptances and endorsements with the character of acceptances	100%
Forward asset purchases, forward forward deposits and partly paid shares and securities, which represent commitments with certain drawdown	100%
An exposure associated with unsettled financial asset purchases, that is, the commitment to pay, where regular-way unsettled trades are accounted for at settlement date, provided that the bank may offset commitments to pay for unsettled purchases and cash to be received for unsettled sales when the following conditions are met: (a) the financial assets bought and sold that are associated with the relevant cash payables and receivables are fair valued through income and included in the bank's trading book in accordance with the relevant requirements specified in regulation 28; and (b) the transactions related to the relevant financial assets are settled on a DVP basis.	100%
Performance related guarantees	50%
Transaction-related contingent items, such as, for example, performance bonds; bid bonds; warranties and standby letters of credit with an original maturity of one year or more	50%
Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs), regardless of the maturity of the underlying facility	50%
Any irrevocable undrawn commitment not included in any other specified category assigned a lower or higher credit conversion factor	40%
Short-term self-liquidating trade letters of credit with a maturity below one year arising from the movement of goods, such as, for example, documentary credits collateralised by the underlying shipment - applied to both issuing and confirming banks	20%
An undertaking to provide a commitment on an	Banks shall

off-balance sheet item	apply the lower of the two applicable CCFs
Off-balance sheet securitisation exposures, other than an eligible liquidity facility or an eligible servicer cash advance facility	100%
Eligible liquidity facilities other than undrawn servicer cash advances or facilities that are unconditionally cancellable without prior notice	50%
Commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	10%
Undrawn servicer cash advances or facilities that are unconditionally cancellable without prior notice	10%
Such arrangements regarded by the Authority as not falling within the ambit of commitments as envisaged in these Regulations and that comply with specified requirements[1]	0%

1. As a minimum, such arrangements shall comply with the following requirements:

(a) the bank shall not receive any fees or commissions to establish or maintain the relevant arrangement;

(b) the arrangement shall relate to a corporate or SME as envisaged in these Regulations;

(c) the corporate or SME shall be required to apply to the bank for the initial and each subsequent drawdown;

(d) the bank shall have full authority, regardless of the fulfilment by the relevant corporate or SME of the conditions set out in any relevant facility documentation, over the execution of each drawdown;

(e) the bank's decision on the execution of each drawdown shall be made only after assessing the creditworthiness of the relevant corporate or SME immediately prior to drawdown;

(f) the relevant corporate or SME shall be closely monitored by the bank on an ongoing basis; and

(g) the bank shall continuously comply with such further requirements as may be specified in writing by the Authority.

(iv) any relevant specific or general provision related to an off-balance sheet item or exposure that has reduced the bank's relevant amount of Tier 1 capital and reserve funds may be deducted equally from the credit exposure equivalent amount related to those exposures, that is, the relevant exposure amount after the application of the relevant specified credit conversion factor, provided that the relevant resulting off-balance sheet equivalent amount for a particular off-balance sheet exposure shall in no case be less than zero.".

Amendment of regulation 39 of the Regulations

7. Regulation 39 of the Regulations is hereby amended:

(a) by the substitution for subregulation (1) of the following subregulation:

"(1) The board of directors of a bank is ultimately accountable for ensuring that an adequate and effective process of corporate governance, which is consistent with the nature, size, complexity and risk inherent in the bank's on-balance sheet and off-balance sheet activities and that appropriately responds to changes in the bank's environment and conditions, is established and maintained, provided that the board of directors may appoint supporting committees to assist it with its respective oversight responsibilities.";

(b) by the substitution in subregulation (5)(d) for subparagraph (vii) of the following subparagraph:

"(vii) to ensure that the bank conducts sufficiently robust and appropriate independent due diligence in respect of the bank's respective material investment in or exposure to counterparties, instruments, products or markets, and that the bank, for example-

(A) does not merely or solely rely on an external credit rating when investing in a particular product or instrument;

(B) has an adequate understanding, at origination and thereafter on a sufficiently regular basis, but not less frequently than once a year, of the risk profile and characteristics of the bank's material exposures to counterparties, instruments, products or markets;

(C) duly assesses whether the relevant risk weight applied to its exposure is appropriate and sufficiently prudent, when the bank does make use of external credit ratings;";

(c) by the substitution in subregulation (5)(f) for subparagraph (i) of the following subparagraph:

"(i) devotes sufficient resources to, among others, the orderly operation of margin agreements with OTC derivative and securities financing counterparties, as measured by, among others, the timeliness and accuracy of the bank's outgoing margin calls and response time to incoming margin calls;";

(d) by the substitution in subregulation (5)(f)(ii) for item (A) of the following item:

"(A) all relevant risk exposures related to margin agreements, such as, for example, the volatility and liquidity of the securities exchanged as collateral;";

(e) by the substitution in subregulation (5)(f)(ii) for item (B) of the following item:

"(B) any potential concentration risk to particular counterparties or types of collateral or other types of risk mitigation instruments;";

(f) by the substitution in subregulation (14) for the words preceding paragraph (a) of the following words:

"(14) A bank that-";

(g) by the substitution in subregulation (14)(a) for the words preceding subparagraph (i) of the following words:

"(a) adopted an internal model approach for the measurement of the bank's exposure arising from equity instruments held in the bank's banking book as part of the bank's internal capital adequacy assessment process-";

(h) by the substitution in subregulation (14)(a)(i)(D) for subitem (vi) of the following subitem:

"(vi) shall be based on well-established model review standards;";

(i) by the substitution in subregulation (14)(a)(iii) for item (H) of the following item:

"(H) shall be adequate to demonstrate the bank's compliance with any relevant specified minimum quantitative and qualitative requirements;";

(j) by the substitution in subregulation (14)(b) for the words preceding subparagraph (i) of the following words:

"(b) wishes to adopt the internal models approach for the measurement of the bank's exposure to market risk arising, *inter alia*, from positions held in the bank's trading book-";

(k) by the substitution in subregulation (14)(c) for the words preceding subparagraph (i) of the following words:

"(c) wishes to adopt an internal approach and incremental risk capital (IRC) model for the measurement of the bank's exposure to incremental default and migration risks arising from instruments or positions subject to specific interest rate risk, other than securitisation or resecuritisation exposures and n-th-to-default credit derivative instruments, held in the bank's trading book, shall have in place a robust validation process, which validation process-".

Amendment of regulation 51 of the Regulations

8. Regulation 51 of the Regulations is hereby substituted for the following regulation:

"**51. Eligible institutions**

(1) An-

(a) external credit assessment institution; or

(b) export credit agency,

that wishes to be recognised as an eligible institution for purposes of the Act and these Regulations shall obtain the prior written approval of the Authority and shall comply with such additional requirements as may be specified in writing by the Authority.

(2) The Authority shall not grant approval as envisaged in subregulation (1) unless, as a minimum-

(a) the relevant external credit assessment institution complies with all the respective requirements specified below:

(i) *Objectivity*

The methodology in terms of which the external credit assessment institution assigns credit assessments in respect of each relevant market segment, asset class, instrument or exposure-

(A) shall be well established for such a minimum period as may be specified in writing by the Authority, which minimum period shall in no case be less than one year;

(B) shall be rigorous;

(C) shall be systematic;

(D) shall be based on an appropriate combination of qualitative and quantitative approaches and elements;

(E) shall be subject to-

(i) appropriate validation based on historical experience;

(ii) ongoing review; and

(iii) rigorous backtesting;

(F) shall be sufficiently robust to ensure that all relevant external ratings issued by the external credit assessment institution-

(i) are subject to ongoing review; and

(ii) are appropriately responsive to changes in financial condition or exposure to a risk of loss.

(ii) *Independence*

The external credit assessment institution shall be independent in the sense, for example-

(A) that the institution is free from any political or economic pressure that may influence a particular rating.

As such, the external credit assessment institution shall not delay or refrain from taking a rating decision or action based upon, for example, its potential economic or political effect.

(B) that the composition of the board of directors or the shareholder structure of the external credit assessment institution and the institution, entity, asset or instrument to be assessed, and the processes related thereto do not create any actual or potential conflict of interest;

(C) that the external credit assessment institution's relevant rating business and the processes related thereto are operationally, legally and, if practicable, physically, appropriately separated from the external credit assessment institution's other businesses, processes and analysts.

(iii) *International access*

Individual assessments issued by the external credit assessment institution as well as the key elements underlying the assessments and whether the relevant issuer participated in the assessment process shall be publicly available on a non-selective basis, provided that-

(A) in the case of a private assessment-

(i) the Authority may, subject to conditions specified by the Authority in writing, allow a deviation from the aforesaid requirements; but

(ii) the relevant assessment shall in all such cases at least be available to both domestic and foreign institutions with a legitimate interest in the assessment, and on equivalent terms;

and

(B) in all relevant cases, the general procedures, respective methodologies and assumptions for arriving at the relevant assessments, used by the external credit assessment institution, shall be publicly available.

(iv) *Disclosure*

As a minimum, an external credit assessment institution shall publicly disclose-

(A) its code of conduct;

(B) the general nature of the compensation arrangements between the external credit assessment institution and the relevant assessed or to be assessed entities or institutions, obligors, lead underwriters or arrangers;

In this regard-

(i) when the external credit assessment institution receives from a rated entity, obligor, originator, lead underwriter, or arranger compensation unrelated to its credit rating services, the external credit assessment institution shall disclose in the relevant credit assessment report, or in such other medium or manner as may be specified in writing by the Authority, the relevant amount of such unrelated compensation expressed as a percentage of its total annual compensation received from such rated entity, obligor, lead underwriter or arranger;

(ii) the external credit assessment institution shall disclose in the relevant credit rating report, or in such other medium or manner as may be specified in writing by the Authority, when the external credit assessment institution receives 10 per cent or more of its annual revenue from a single client, such as, for example, from a rated entity, obligor, originator, lead underwriter, arranger or subscriber, or from any affiliate(s) of the aforementioned rated entity, obligor, originator, lead underwriter, arranger or subscriber.

(C) appropriate information related to any conflict or potential conflict of interest

In this regard the external credit assessment institution shall, as a minimum, disclose sufficiently detailed information related to any of the situations specified below, including their influence or potential influence on the relevant external credit assessment institution's credit rating methodologies or credit rating actions:

When the external credit assessment institution-

(i) is being paid by the rated entity or by the obligor, originator, underwriter, or arranger of the rated obligation, to issue a credit rating;

(ii) is being paid by subscribers with a financial interest that could be affected by a credit rating action of the said external credit assessment institution;

(iii) is being paid by rated entities, obligors, originators, underwriters, arrangers, or subscribers for services other than the issuance of credit ratings or for providing access to the external credit assessment institution's credit ratings;

(iv) provides a preliminary indication or similar indication of credit quality to an entity, obligor, originator, underwriter, or arranger, prior to being hired to determine the final credit rating for the relevant entity, obligor, originator, underwriter, or arranger;

(v) has a direct or indirect ownership interest in a rated entity or obligor, or a rated entity or obligor has a direct or indirect ownership interest in the external credit assessment institution.

(D) the assessment methodologies used by the said external credit assessment institution, including-

(i) the definition of default;

(ii) the time horizon used in the rating process;

(iii) the meaning of each relevant assessment or rating;

(iv) in plain and simple language, the nature and limitation of credit ratings, and the risk of persons unduly relying on ratings, for example, to make investment decisions;

(E) the actual default rates experienced in each relevant assessment category;

(F) all relevant assessments or ratings as soon as practicably possible after issuance;

(G) the transitions relating to the various assessments or ratings, that is, the likelihood of a AA rating, for example, becoming an A rating over time.

(v) *Resources*

An external credit assessment institution shall have sufficient resources-

(A) to conduct high quality credit assessments, which assessments shall be based on methodologies appropriately combining qualitative and quantitative approaches and elements;

(B) to ensure that the external credit assessment institution is able to assign analysts with appropriate knowledge and experience to assess the creditworthiness of the type of entity or obligation being rated;

(C) to allow for substantial ongoing contact with relevant personnel at senior and operational levels within the assessed institutions or entities.

(vi) *Credibility*

(A) As a minimum, the credibility of an external credit assessment institution shall be evidenced by factors such as, for example-

(i) the reliance being placed on the external credit assessment institution's external credit assessments by independent persons or parties, such as investors or insurers;

(ii) the existence of comprehensive and duly documented internal policies and procedures to prevent the abuse or inappropriate use of any confidential information,

(B) An external credit assessment institution shall in no case use unsolicited ratings as a means to put pressure on an institution or entity to obtain solicited ratings.

Provided that-

(i) none of the requirements specified in this paragraph (a) shall be construed to mean that an external credit assessment institution has to assess institutions, entities or instruments in more than one country or jurisdiction before being in a position to submit an application for approval as an eligible institution;

(ii) should the Authority grant approval for an external credit assessment institution to be recognised as an eligible institution for purposes of the Act and the Regulations, the said external credit assessment institution shall notify the Authority in writing of any significant changes to methodologies and provide access to external ratings and other relevant data in order to support the external credit assessment institution's initial and continued determination of eligibility.

(b) the relevant export credit agency-

(i) publishes its risk scores;

(ii) subscribes to any relevant OECD agreed methodology to assign country risk scores, which methodology currently establishes eight risk score categories associated with minimum export insurance premiums.".

Amendment of regulation 67 of the Regulations

9. Regulation 67 of the Regulations is hereby amended:

(a) by the substitution for subparagraph (i) of paragraph (a) of the definition of "asset class" of the following subparagraph:

"(i) any corporate exposure, that is, any exposure to a corporate entity or institution, including:

(A) any general corporate exposure;

(B) specialised lending exposure;

(C) any relevant exposure to an SME of which the aggregate annual turnover or sales amount exceeds a specified amount, and

which corporate exposure adheres to such further requirements as may be specified in these Regulations;";

(b) by the substitution for subparagraph (ii) of paragraph (a) of the definition of "asset class" of the following subparagraph:

"(ii) any corporate SME exposure, that is, any exposure to a corporate entity or institution of which the aggregate annual turnover or sales amount is less than a specified amount, which exposure shall be deemed to constitute a corporate SME exposure and as such shall be reported separately;";

(c) by the substitution for subparagraph (viii) of paragraph (a) of the definition of "asset class" of the following subparagraph:

"(viii) any retail exposure, including:

(A) any relevant retail revolving credit exposure; or

(B) retail residential real estate or residential mortgage exposure, including exposure related to land acquisition, development and construction of residential real estate,

which retail exposure adheres to specified requirements;";

(d) by the substitution for subparagraph (ix) of paragraph (a) of the definition of "asset class" of the following subparagraph:

"(ix) any relevant retail SME exposure, that is, any retail exposure that complies with specified requirements, which retail SME exposure shall be reported separately from retail exposure not constituting retail SME exposure;";

(e) by the substitution for subparagraph (x) of paragraph (a) of the definition of "asset class" of the following subparagraph:

"(x) any relevant exposure related to commercial real estate, including exposure related to land acquisition, development and construction of commercial real estate, which commercial real estate exposure adheres to specified requirements;";

(f) by the insertion in paragraph (a) of the definition of “asset class” of the following subparagraph:

“(xi) any relevant securitisation exposure;”;

(g) by the substitution for subparagraph (i) of paragraph (b) of the definition of “asset class” of the following subparagraph:

“(i) any corporate exposure, that is, any exposure to a corporate entity or institution, including-

(A) any specialised lending exposure relating to high volatility commercial real estate;

(B) any specialised lending exposure relating to income producing real estate;

(C) any specialised lending exposure relating to object finance;

(D) any specialised lending exposure relating to commodity finance;

(E) any specialised lending exposure relating to project finance;

(F) any purchased corporate receivable;

which specialised lending exposures specified in items (A) to (E) and purchased corporate receivables specified in item (F) constitute separate sub-asset classes within the corporate exposure asset class and shall be reported separately whenever required or specified in terms of these Regulations”;

(h) by the substitution for subparagraph (ii) of paragraph (b) of the definition of “asset class” of the following subparagraph:

“(ii) any corporate SME exposure, that is, any exposure to a corporate entity or institution of which the aggregate annual turnover or sales amount is less than a specified amount, which exposure shall be deemed to constitute a corporate SME exposure and as such shall be reported separately whenever required or specified in these Regulations;”;

(i) by the substitution for subparagraph (viii) of paragraph (b) of the definition of “asset class” of the following subparagraph:

“(viii) any retail exposure, which retail exposure complies with specified requirements, including-

(A) any retail residential real estate or residential mortgage exposure;

(B) any retail revolving credit exposure;

(C) any purchased retail receivable; and

(D) retail exposure other than the sub-asset classes of retail exposure specified in items (A) to (C) hereinbefore;";

(j) by the substitution for subparagraph (ix) of paragraph (b) of the definition of "asset class" of the following subparagraph:

"(ix) any relevant retail SME exposure, that is, any retail exposure that complies with specified requirements, which retail SME exposure shall be reported separately from retail exposure not constituting retail SME exposure;";

(k) by the substitution for the introductory words preceding paragraph (a) of the definition of "central counterparty" of the following words:

"**"central counterparty"** in relation to a bank's exposure to counterparty credit risk and the leverage ratio exposure measure, unless specifically stated otherwise, means an entity or a person that acts as an intermediary between counterparties to contracts traded in one or more financial markets, which entity or person or intermediary-";

(l) by the substitution for the introductory words preceding paragraph (a) of the definition of "clearing member" of the following words:

"**"clearing member"** in relation to counterparty credit risk and the leverage ratio exposure measure, unless specifically stated otherwise, means a member of, or a direct participant in, a central counterparty that is entitled to enter into a transaction with the relevant central counterparty, irrespective whether or not the relevant transactions with the central counterparty are for the member's own hedging, investment or speculative purposes, or whether it also enters into trades as a financial intermediary between the relevant central counterparty and other market participants, provided that-";

(m) by the substitution for paragraph (c) of the definition of "counterparty credit risk" of the following paragraph:

"(c) which contract, transaction or agreement-

(i) may relate to an OTC derivative instrument, a securities financing transaction or a long settlement trade transaction;

(ii) creates a current exposure or market value;

(iii) creates a bilateral risk of loss;

(iv) may be frequently valued based on market variables;";

(n) by the insertion after the definition of "counterparty credit risk" of the following definition:

"**"covered bond"**, unless specifically otherwise stated, means a bond-

(a) issued by a bank or mortgage institution;

(b) subject by law to special public supervision designed to protect bond holders;

(c) in respect of which the proceeds derived from the issue of the bond has to be invested in conformity with the relevant legislation in assets which, during the whole period of the validity of the bond, are capable of covering claims attached to the bond and which, in the event of the failure of the issuer, would be used on a priority basis for the reimbursement to the holder of the bond of the relevant principal amount invested and payment of the relevant amount of accrued interest;";

(o) by the substitution for the definition of "default" of the following definition:

"**"default"** in relation to-

(a) the standardised approach for the measurement of a bank's exposure to credit risk means-

(i) any relevant exposure that is past due for more than 90 days; or

(ii) an exposure to a defaulted borrower, that is, a borrower in respect of whom any one of the following events have occurred:

(A) A material credit obligation of that person is past due for more than 90 days, provided that in the case of an overdraft facility, the exposure shall be regarded past due when the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding;

(B) A material credit obligation of that person has been placed on non-accrued/ non-accrual status, that is, the lending bank, for example, has decided to no longer recognise accrued interest as income or, if interest income is recognised, the bank raises an equivalent amount as provision for credit impairment;

(C) A write-off or account-specific provision for credit impairment is made as a result of a significant perceived decline in the credit quality of the person, subsequent to the bank granting a credit exposure to that person or borrower;

(D) A credit obligation of the person is sold at a material credit-related economic loss;

(E) A distressed restructuring of any credit obligation of the person is made, such as, for example, a restructuring that may result in a reduced financial obligation caused by the material forgiveness or postponement of principal, interest or, in relevant cases, fees, is agreed to by the bank;

(F) An application has been made for the borrower's insolvency, sequestration or bankruptcy, or a similar order, in respect of any of the borrower's credit obligations to the bank or banking group of which the bank is a member;

(G) The person or borrower has sought or has been placed in bankruptcy or similar protection from creditors to avoid or delay repayment of any of the credit obligations to the bank or banking group of which the bank is a member; or

(H) Any other situation in respect of which the bank considers the person or borrower to be unlikely to pay its credit obligations in full without recourse by the bank to actions such as to realise security held,

(b) the IRB approach for the measurement of a bank's exposure to credit risk shall in the case of-

(i) exposures other than retail exposures, be deemed to have occurred when the bank is of the opinion that an obligor is unlikely to pay his/her/its credit obligations in full without any recourse by the said bank to actions such as the realisation of security, which opinion of the bank, as a minimum, shall be based on the matters specified below:

(A) The bank has assigned non-accrued status to the relevant credit obligation;

(B) The bank has written off a portion or raised a specific provision in respect of the relevant credit exposure due to a significant perceived decline in the credit quality of the obligor since the bank incurred the said exposure;

(C) The bank is about to sell the credit obligation at a material credit-related economic loss;

(D) The bank has consented to a distressed restructuring of the credit obligation, which restructuring is likely to result in a reduced financial obligation caused by, for example, the postponement of principal, interest or fees;

(E) The bank has applied for the obligor's bankruptcy or a similar order in respect of the obligor's credit obligation;

(F) The obligor has applied for or has been placed in bankruptcy or similar protection and the said event is likely to avoid or delay repayment of the credit obligation to the banking group.

(ii) exposures other than retail exposures be deemed to have occurred when a material obligation of an obligor is overdue for more than 90 days;

(iii) retail exposures be deemed to have occurred when the criteria specified in paragraph (a) or (b) above are present at a facility level instead of an obligor level;

(iv) an overdraft facility be deemed to have occurred when-

(A) an obligor exceeded an advised limit for more than 90 days, that is, the relevant obligor failed to reduce the outstanding amount within the said period of time to an amount that is within the authorised limit; or

(B) an obligor is advised of a limit smaller than the obligor's existing outstanding amount and the relevant obligor failed to reduce the outstanding amount within a period of 90 days to an amount that is within the newly advised limit;

(C) the reporting bank extends credit to a person with no authorised limit, which credit is not repaid within 90 days;";

(p) by the substitution for the definition of "eligible provisions" of the following definition:

"**"eligible provisions"** in relation to a bank that adopted the IRB approach for the measurement of the bank's exposure to credit risk means the sum of all relevant credit impairments, allowances or reserves for impairment, including-

(a) specific credit impairment;

(b) portfolio-specific credit impairment;

(c) general allowance or reserve for credit impairment; and

(d) any discounts on defaulted assets,

which impairment, allowance, reserve or discount relates to exposures measured or calculated in terms of the IRB approach, but do not include any specific impairments relating to any securitisation exposure;";

(q) by the substitution for the introductory words preceding paragraph (a) of the definition of "irrevocable undrawn commitment or facility" of the following words:

"**"irrevocable undrawn commitment or facility"** in relation to a bank's off-balance sheet exposure includes any contractual commitment, facility or arrangement offered by the bank and accepted by its client to extend credit, purchase assets or issue any credit substitute in respect of which the bank is legally committed to honour any subsequent drawdown or obligation arising from the said contractual commitment, facility or arrangement, and the said obligation of the bank in respect of the said contractual commitment, facility or arrangement may not be cancelled or amended by the bank-";

(r) by the substitution for the definition of "multi-level client structure" of the following definition:

"**"multi-level client structure"** in relation to counterparty credit risk and the leverage ratio exposure measure, unless specifically stated otherwise, means a structure in terms of which a bank may centrally clear as an indirect client, that is, clearing services are provided to the bank by an institution or a person that is not a direct clearing member, but is itself a client of a clearing member or another clearing client, provided that for purposes of these Regulations, in relation to exposures between clients and clients of clients, the term "higher level client" and the term "lower level client" shall bear the meaning as defined hereinbefore;";

(s) by the substitution for the definition of "revocable undrawn commitment or facility" of the following definition:

"**"revocable undrawn commitment or facility"** in relation to a bank's off-balance sheet exposure includes-

(a) any commitment, facility, obligation or arrangement to extend credit, purchase assets or issue a credit substitute that is revocable and unconditionally cancellable by the bank, at any time and at the sole discretion of the reporting bank, without prior notice to the relevant client and without the bank incurring any cost or penalty;

(b) any arrangement that can be unconditionally cancelled by the bank if the relevant client or obligor fails to meet conditions set out in the relevant documentation, including conditions that must be met by the relevant client or obligor prior to any initial or subsequent drawdown;";

(t) by the substitution for the introductory words preceding paragraph (a) of the definition of "trade exposure" of the following words:

"**"trade exposure"** in relation to counterparty credit risk and the leverage ratio exposure measure, unless specifically stated otherwise, includes the current exposure and the potential future exposure of a clearing member or a client to a central counterparty, arising from-".

10. **Date of commencement**

These Regulations shall come into operation on 1 July 2025.