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South African Reserve Bank
Prudential Authority

Ref.: 15/8/2/3

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

Proposed Directive issued in terms of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990)

Implementation roadmap for the Basel III post-crisis reforms and the Directive on the distressed restructured credit exposures

Executive summary

The Prudential Authority (PA) continues to strive towards ensuring that the legal framework for the regulation and supervision of banks and banking groups in South Africa remains relevant.

As part of the internationally agreed regulatory reforms to promote the safety and soundness of the global financial system, the Basel Committee on Banking Supervision (BCBS) has, in recent years, issued various new or revised frameworks or requirements for implementation by member jurisdictions.

On 7 December 2017, the BCBS issued the remaining components of the Basel III post-crisis reforms. These reforms included, among other things, the revisions to the standardised (STA) and internal ratings-based (IRB) approaches for credit risk.

Accordingly, on 11 September 2024, the PA issued draft 3 of the proposed amendments to the Regulations relating to Banks (Regulations), incorporating the remaining components. These proposed amendments included the revisions to the STA and IRB approaches, which form part of the Basel III post-crisis reform package of regulatory reforms, into the Regulations.

In April 2023, the PA initiated discussions with banks and other interested persons to replace Directive 7 of 2015 (D7/2015). These discussions culminated in the PA issuing a proposed Directive on the prudential treatment of distressed restructured credit exposures (hereinafter referred to as the ‘revised credit restructures directive’) on 7 June 2024.

This proposed Directive direct banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as ‘banks’) on the implementation roadmap which banks must follow to roll out all the systems, processes and models-related changes to comply with the requirements of the revised STA and IRB approaches and the revised credit restructures directive.

1. Introduction

1.1 As a member of the Basel Committee on Banking Supervision (BCBS), the Prudential Authority (PA) has committed to the full and timely implementation of the Basel III post-crisis reforms.

1.2 In July 2023, the PA published Guidance Note 3 of 2023 to communicate the timelines for the implementation of the Basel III post-crisis reforms. In terms of these timelines, the revised internal ratings-based (IRB) and the standardised (STA) approaches will come into effect from 1 July 2025.[1]

1.3 In September 2024, the PA published an updated version of proposed amendments to the Regulations relating to Banks[2] (draft 3). Among other things, draft 3 incorporated the revised IRB and STA approaches which form part of the Basel III post-crisis reforms.

1.4 The revisions to the STA approach are, among other things, intended to reduce the undue reliance on external ratings and introduce more granular risk-weighting schemes for real estate exposures. The revisions to the IRB approaches are intended to reduce the scope of modelling for certain asset classes and introduce parameter floors to reduce the undue variability of risk-weighted assets (RWA) among banks.

1.5 The PA also published the proposed Directive on the prudential treatment of distressed restructured credit exposures (revised credit restructures directive). The revised credit restructures directive will replace the current Directive 7 of 2015 (D7/2015).[3]

1.6 Implementing the revisions to the STA and IRB approaches and the revised credit restructures directive will require banks to make various changes, including to their systems, processes and the credit risk models used under the IRB approaches to calculate their regulatory capital and reserve funds for their credit exposure. Some of these changes will take time and will require effort and significant resources to implement.

1.7 Certain changes impacting the IRB approaches can be implemented immediately without requiring model changes or prior written approval from the PA. Other changes will require time to implement, both in terms of performing gap and expected impact analyses[4] as well as making actual model changes and obtaining prior written approval from the PA. For instance, specific requirements relating to exposure at default (EAD) models may take time to incorporate appropriately. In addition, IRB banks must identify and remediate gaps arising from the revised regulatory modelling requirements for probability of default (PD) and loss given default (LGD) models.

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[1] The amendments to the Regulations have been published in Government Gazette No. 52907 dated 26 June 2025, for implementation with effect from 1 July 2025.
[2] See https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-documents-issued-for-consultation/2024/Proposed-Directive-Proposed-amendments-to-Regulations-relating-to-Banks.
[3] See D7/2015: Restructured credit exposures.
[4] Phase 2 requires banks to assess IRB credit risk model gaps as a result of implementing Phase 1 as well as gaps arising from the revised regulatory requirements, notwithstanding those stemming from the revised credit restructures directive.

1.8 This proposed Directive directs banks on the implementation of the revisions to the STA and IRB approaches and the revised credit restructures directive in a phased manner.

1.9 The phased roll-out approach accounts for the time required to update the systems and process the changes required to incorporate the revisions to the IRB approach and the revised credit restructures directive. This approach also takes into account the often extensive internal governance processes through which banks that have adopted the IRB approaches for credit risk must undertake before regulatory model changes are submitted to the PA for approval. It also considers the PA's own internal review and governance processes as well as the associated timelines.

2. Proposed Directive

2.1 Based on the aforesaid, and in accordance with provisions of section 6(6) of the Banks Act, 1990 (Act No. 94 of 1990) (Banks Act), banks are hereby directed as follows:

2.1.1 For banks using the STA approach to calculate their minimum required capital and reserve funds for their credit risk exposures:

2.1.1.1 Banks are required to be in full compliance with the amended Regulations relating to Banks (Regulations), specifically all the requirements relating to the STA approach in regulation 23 of the amended Regulations, with effect from 1 July 2025.

2.1.1.2 Banks are required to be fully compliant with all the requirements in the revised credit restructures directive by 1 January 2027 (refer to paragraph 2.3).

2.2 Banks that obtained approval to adopt the IRB approaches to calculate their minimum required capital and reserve funds for their credit risk exposures:

2.2.1 Banks are required to implement the revised IRB approaches in three phases, starting from 1 July 2025 to 31 December 2028. The revised credit restructures directive and the requisite model changes will be implemented in a fourth phase, starting from 1 January 2029.

2.2.2 The phases and the related timelines do not preclude banks that are able to meet the requirements of a particular phase ahead of the scheduled time frame from doing so. In this regard, the PA reserves the right to direct any bank to prioritise the implementation of certain changes, or model changes earlier than the timelines for each phase and the roll out plans outlined in paragraph 2.2.6.

2.2.3 In terms of regulatory reporting, all banks must start reporting distressed restructured credit exposures in accordance with the requirements of the revised credit restructures directive from the reporting month of January 2027. During the period 1 July 2025 to 31 December 2026, the PA expects all banks to implement all the requisite changes to their reporting systems and process to prepare for regulatory reporting from the January 2027 reporting month.

2.2.4 Appendix A of this Directive details the PA's requirements for compliance with the Regulations and the revised credit restructures directive at each phase of the roll-out.

2.2.5 *Phase 1: 0 to 6 months from the effective date of the Regulations*

2.2.5.1 During this phase, banks using the IRB approaches will be expected to implement the requirements under the IRB approaches that do not require any changes to their models. Banks should aim to achieve full compliance with effect from 1 July 2025. In this regard, the PA expects all banks using the IRB approaches to fully implement the following requirements with effect from 1 July 2025:

2.2.5.1.1 the implementation of prescribed regulatory estimates outlined in regulations 23(11)(b)(vi)(B) and 23(11)(d)(ii) of the amended Regulations;

2.2.5.1.2 the application of threshold amounts as outlined in Directive 8 of 2023;

2.2.5.1.3 removing the use of the advanced IRB approach for specified asset classes in accordance with the requirements of regulation 23(13) of the Regulations; and

2.2.5.1.4 removing the 1.06 scaling factor that is applied in the credit RWA calculation.

2.2.6 *Phase 2: 6 to 18 months from the effective date of the Regulations*

2.2.6.1 During Phase 2, banks using the IRB approaches are required to assess their IRB credit risk models and identify gaps remaining from the implementation of the revised regulatory requirements in Phase 1 as well as introduce appropriate margins of conservatism (MoCs).

2.2.6.2 This phase will run for a period of 12 months and will include:

2.2.6.2.1 banks scoping gaps due to Phase 1 implementation or any other gaps in meeting the requirements of revised regulatory requirements and the revised credit restructures directive respectively;

2.2.6.2.2 banks estimating and applying MoCs to mitigate against the identified gaps; and

2.2.6.2.3 banks scoping sustainable remediation methods to be implemented in Phases 3 and 4 respectively.

2.2.6.3 As part of Phase 2, the PA requires each IRB bank to submit a roll-out plan in which they articulate their approach to implementing all the remaining changes to systems, processes and IRB credit risk models related to the revised regulatory requirements and the revised credit restructures directive.

2.2.6.4 The PA will engage each IRB bank on a bilateral basis to review and approve the roll-out plans as well as the relevant MoCs.

2.2.6.5 When planning model redevelopments for Phase 4, banks must consider the demands on internal resources (including model development and model validation) and allow sufficient time for internal approval processes. The planning of model redevelopment must accommodate, among other things, the new requirements for the modelling of EAD, including the use of the 12-month fixed-horizon approach. There are also several revised regulatory requirements that relate to PD and LGD models which IRB banks must prioritise and accommodate in their redevelopment plans.

2.2.6.6 The roll-out plans referred to in paragraph 2.2.6.3 of this Directive must be submitted by completing the template provided in Appendix A, and accompanied by a cover letter signed by the Chief Risk Officer (CRO) of the relevant IRB bank. The roll-out plans must consider the materiality of the various affected models when prioritising the model redevelopments. For instance, models with higher materiality classification should be prioritised over models with lower materiality classification.

2.2.6.7 However, if less material models display performance weaknesses and need urgent changes, the PA will accommodate the prioritisation of such models to mitigate the risk of RWA underestimation.

2.2.6.8 The PA will require each IRB bank to motivate their roll-out plans both in terms of materiality and prioritisation considerations. In this regard, the PA reserves the right to direct an IRB bank to revise its roll-out plan to prioritise certain changes over others. The bilateral engagements will be key for the PA in managing the inflow and review process of model change submissions to the PA.

2.2.6.9 If a bank chooses to integrate both the revised credit restructures directive and the changes arising from the Regulations into its model updates (as opposed to phasing these separately), the PA will require that all requisite model changes and submissions to the PA for prior written approval are completed by the end of Phase 3.

2.2.6.10 In this regard, the PA wishes to reiterate that the implementation of the Basel III post crisis reforms must take priority over the revised credit restructures directive.

2.2.7 *Phase 3: 18 to 42 months from the effective date of the Regulations*

2.2.7.1 In Phases 3, IRB banks will be required to action the PA-approved implementation plans from Phase 2.

2.2.7.2 Phase 3 is intended for the development and implementation of the Basel III post-crisis reforms. This phase will run for two years, and the period will include the time required by banks to conclude their internal governance processes as well as the PA's prior written approval. Submission for Phase 3 must be in the format prescribed in paragraph 2.2.9 of this directive.

2.2.7.3 If a bank anticipates that it will not meet the timelines designated for this phase, it will be required to submit a condonation request, with comprehensive motivation for the timeline it proposes for the PA's consideration. Additionally, if a bank cannot meet the indicated timelines due to additional revisions directed by the PA on any of its models, the PA will issue specific directives on a case-by-case to the affected banks.

2.2.8 *Phase 4: 42 to 66 months from the effective date of the Regulations*

2.2.8.1 Phase 4 is designated for the execution of model development plans to implement the revised credit restructures directive.

2.2.8.2 During this phase, banks will be required to submit all model changes related to the revised credit restructures directive for the PA's prior written approval.

2.2.8.3 The revised credit restructures directive forms an integral part of the PA's prudential framework for the regulation and supervision of banks' exposure to credit risk, and it remains a fundamental component of regulatory compliance, impacting the construct of data, default definition considerations and model frameworks.

2.2.8.4 Banks will be required to make extensive updates to their policies, systems, processes and data to comply with the revised credit restructures directive. As such, the starting point for each bank's process of amending the IRB models may differ, and this is accommodated in the additional timeline afforded by Phase 4.

2.2.9 Requirements regarding changes to IRB credit risk models

2.2.9.1 Banks using the IRB approaches are required to obtain prior written approval from the PA when making model changes to IRB credit risk models related to the roll-out of the Basel III post-crisis reforms and the revised credit restructures directive.

2.2.9.2 For the duration of the roll-out period, these model changes will remain subject to PA approval. Without derogating from the requirements of Directive 2 of 2014 (D2/2014), for the duration of the roll-out period the following requirements for model changes will apply:

2.2.9.3 Tier 1 model changes, that is, models proposed for decommissioning or where the model application scope is proposed to change without any changes made to the model, must be communicated to the PA. Additionally, even if no model changes are applicable, updates to the parameter estimate floor as indicated in the Regulations must be communicated to the PA.

2.2.9.4 Tier 2 model changes, that is, the recalibration of models without any changes to the model methodology, must be communicated to the PA. The model validation documentation presented to approval committee(s) as well as the approval committee(s') minutes must be submitted as supporting documentation to the communication of the model change.

2.2.9.5 Tier 3 model changes, that is, updates to the model without the full redevelopment of the model,[5] where this results in a material impact, must be communicated to the PA. The model development documentation, validation documentation, model code, masked data, the documentation presented to approval committee(s) as well as the approval committee(s') minutes must be submitted as supporting documentation to the communication of the model change. Should the update to the model not result in a material impact,[6] the model change must be considered as a tier 2 model change.

2.2.9.6 Tier 4 model changes, that is, model developments or redevelopments, must be communicated to the PA. This includes the change in approach when estimating

[5] This may include changing an input variable, updating the segmentation applied or any other change where the model methodology is retained.

[6] Material impact is to be assessed as per paragraph 2.1.2 of D2/2014.

Credit Conversion Factor (CCF) for EAD using the fixed horizon approach. Submission requirements are the same as that of a tier 3 model change.

2.3 Regulatory reporting requirements

2.3.1 In order to manage the transition process and mitigate the potential impact on the data reported in the statutory return, the following regulatory reporting requirements will apply:

2.3.2 Regulatory reporting in accordance with the requirements of the revised credit restructures directive will be from the January 2027 reporting month. This means that restructured credit exposures initiated after 1 January 2027 must be reported in accordance with the requirements of the revised credit restructures directive from the January 2027 reporting month.

2.3.3 The phase-in period will start from the date of publication until 31 December 2026 (Phases 1 and 2). During this phase-in period, banks must continue to report all restructured credit exposures in accordance with the requirements of D7/2015 in the revised BA 210 return. At the same time, throughout the phase-in period, the PA also requires banks to make all the requisite changes to their systems, processes and policies to prepare for regulatory reporting in line with the requirements of the revised credit restructures directive for the January 2027 reporting month.

2.3.4 Restructured credit exposures that are in probation, in terms of paragraphs 5.11 to 5.16 of D7/2015, up to and including 31 December 2026 (D7/2015 stock) must continue to be reported in accordance with the requirements of D7/2015 until 31 December 2026. For D7/2015 stock exposures after 31 December 2026, banks must prospectively apply all the requirements relating to the treatment of restructured credit exposures as outlined in the revised credit restructures directive.

2.3.5 For restructured credit exposures initiated from 1 January 2027 (inflows), banks must report in accordance with the requirements of the revised credit restructures directive.

2.4 Communication

2.4.1 All proposed changes, irrespective of the tier, must be communicated in writing to the PA in the format specified in Annexure A, and must be signed by the CRO of the IRB bank.

2.5 Documentation

2.5.1 All submitted documentation must be the final, signed-off version thereof, and comply with the documentation standards specified in regulation 23(11)(b)(v)(I) of the Regulations.

3. Effective date

3.1 The respective requirements specified in this proposed Directive shall be effective from [to be determined]

4. Invitation for comment

4.1 All interested persons are hereby invited to submit their comments on this directive to SARB-PA@resbank.co.za, RSD-Quants@resbank.co.za and RSD-CreditRisk@resbank.co.za, for the attention of Ms Asiphe Mahlati and Mr Eric Sithole, by no later than 11 August 2025.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 21/07/25

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