



## Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)

### Prudential Communication 7 of 2021

#### Revised market risk and credit valuation adjustment frameworks - implementation roadmap

##### **Objective of this Communication**

*This Prudential Communication outlines a high-level and indicative implementation roadmap for the revised market risk and credit valuation adjustment frameworks.*

The Basel Committee on Banking Supervision's (BCBS) Revised Minimum Capital Requirements for Market Risk, also referred to as the Fundamental Review of the Trading Book (FRTB), and the Revised Credit Valuation Adjustment framework (CVA), due for implementation in South Africa on 1 January 2024<sup>1</sup>, bears reference.

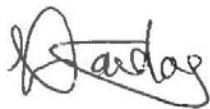
The Prudential Authority (PA) hereby informs all affected persons of the FRTB and CVA frameworks' implementation roadmaps set out in **Appendix A and Appendix B**, respectively. This implementation roadmap addresses various structural, technical, and operational milestones and is intended to guide project planning initiatives within the PA and across supervised banks ahead of and marginally beyond the implementation date of 1 January 2024. In all instances, unless otherwise stipulated, the regulatory reporting and capitalisation date against the prescriptive standards set out in the FRTB and CVA frameworks is 1 January 2024.

The implementation milestones presented in **Appendix A and Appendix B** may be subject to revision, with due consideration to the impact on banks' preparatory programmes ahead of the implementation date. Further communication will be circulated to banks through the course of implementation with accurate dates and on the technical and processual aspects of the implementation milestones, where relevant. All details behind the submission of applications and other such requirements to the PA will be handled separately but remain informed by the milestones noted in this implementation roadmap. The regulatory reporting metrics, composite returns and business dates for all test submissions will be specified closer to the relevant milestones in purpose-specific communications to be issued to banks. Banks will be advised of the prescriptive technical specifications that need to be complied with to transmit (and potentially receive) data to (from) the PA. As such, this activity stream is captured as system and process testing (SPT) within the proposed implementation roadmap.

<sup>1</sup> As per the schedule reflected in Guidance Note 4 of 2021

Finally, banks are encouraged to employ the full extent of their resources, capability, and governance to ensure that the implementation of the FRTB and CVA regulatory frameworks demonstrates critical structural and mechanical integrity. Should banks foresee any challenges in meeting the implementation timelines set out in **Appendix A and Appendix B**, it remains incumbent upon the respective banks to engage with the PA thereon in an expeditious manner.

All requests for further information related to this Prudential Communication may be submitted via email to the PA's Market Risk Division at PA\_RSD-MarketRisk@resbank.co.za, with the relevant PA frontline division copied, where applicable.

A handwritten signature in black ink, appearing to read 'Kuben Naidoo', written in a cursive style.

**Kuben Naidoo**  
**Deputy Governor and CEO: Prudential Authority**

**Date:** 22 September 2021

## Appendix A - Revised Market Risk Framework-implementation roadmap

**Table 1: Foundational work stream**

| 1. Foundational work stream |  |            |            |
|-----------------------------|--|------------|------------|
| Index                       | Stream   | Start date | End date   |
| 1.1.                        | Submission of application by banks to the PA   | 01-07-2022 | 01-07-2022 |
| 1.2.                        | PA assessment of applications by banks         | 01-07-2022 | 01-12-2022 |
| 1.3.                        | Communication of application outcomes to banks | 01-12-2022 | 01-01-2023 |
| 1.4.                        | SPT  | 01-01-2022 | 01-01-2024 |

**Table 2: Simplified standardised approach work stream**

| 2. Simplified standardised approach work stream |   |            |            |
|---|---|------------|------------|
| Index   | Stream  | Start date | End date   |
| 2.1   | Submission of application by banks to the PA                | 01-03-2022 | 01-03-2022 |
| 2.2   | PA assessment of applications by banks                      | 01-03-2022 | 01-07-2022 |
| 2.3   | Communication of application outcomes to banks <sup>2</sup> | 01-07-2022 | 01-08-2023 |
| 2.4   | SPT   | 01-01-2022 | 01-01-2024 |
| 2.5   | Regulatory reporting and capitalisation                     | 01-01-2024 |            |

**Table 3: Internal models approach work stream**

| 3. Internal Models Approach (IMA) work stream |   |            |            |
|---|---|------------|------------|
| Index   | Stream  | Start date | End date   |
| <b>IMA-PHASE 1</b>                            |   |            |            |
| 3.1.  | Phase 1: <b>First</b> subset of prospective IMA trading desks   |            |            |
| 3.1.1   | Submission of application by banks to the PA  | 01-07-2022 | 01-07-2022 |
| 3.1.2   | PA assessment of applications by banks  | 01-07-2022 | 01-09-2022 |
| 3.1.3   | Communication of application outcomes to banks for participation in the IMA initial monitoring and live testing run to commence 01-10-2022 <ul style="list-style-type: none"> <li>Banks applying for the use of an IMA are expected to ensure full readiness of their infrastructural and processual capabilities to commence with the initial monitoring and live testing run on 01-10-2022</li> </ul> | 01-09-2022 | 01-10-2022 |
| 3.1.4.  | Phase 1: Initial monitoring and live testing run <ul style="list-style-type: none"> <li>Banks are required to make monthly submissions for a period of one year, with a final end to end assessment to be submitted to the PA on 16-10-2023 (submission template to be prescribed in due course)</li> </ul>   | 01-10-2022 | 01-10-2023 |

<sup>2</sup> Banks that do not receive approval for any part of their application will be required to capitalise under the standardised approach and should commence the build of the standardised approach capability

|                                |   |            |            |
|--------------------------------|---|------------|------------|
|                                | <ul style="list-style-type: none"> <li>The PA assessment of the monthly submissions will progress throughout and post the period of initial monitoring and live testing run</li> <li>The PA will inform banks of the outcome on the general risk component for the live testing run. Following this point, banks may submit an application to the PA to model the default risk charge under the IMA</li> </ul>  |            |            |
| 3.1.5                          | Phase 1: SPT  | 01-01-2022 | 01-01-2024 |
| 3.1.6                          | Communication of IMA phase 1 outcomes to banks  | 01-12-2023 | 01-01-2024 |
| 3.1.7                          | Regulatory reporting and capitalisation   | 01-01-2024 |            |
| <b>IMA-PHASE 2</b>             |   |            |            |
| 3.2                            | Phase 2: <b>Second</b> subset of prospective IMA trading desks  |            |            |
| 3.2.1                          | Submission of application by banks to the PA  | 01-12-2022 | 01-12-2022 |
| 3.2.2                          | PA assessment of applications by banks  | 01-12-2022 | 01-06-2023 |
| 3.2.3                          | <p>Communication of application outcomes to banks for participation in IMA initial monitoring and live testing run to commence 01-07-2023</p> <ul style="list-style-type: none"> <li>Banks applying for the use of an IMA are expected to ensure full readiness of their infrastructural and processual capabilities to commence with the initial monitoring and live testing run on 01-07-2023</li> </ul>  | 01-06-2023 | 01-07-2023 |
| 3.2.4.                         | <p>Phase 2: Initial monitoring and live testing run</p> <ul style="list-style-type: none"> <li>Banks are required to make monthly submissions for a period of one year and a final end to end assessment, to be submitted to the PA on 19-07-2024 (submission template to be prescribed in due course)</li> <li>PA assessment of the monthly submissions will progress throughout and post the period of initial monitoring and live testing run</li> <li>The PA will inform banks of the outcome on the general risk component for the live testing run. Following this point, banks may submit an application to the PA to model the default risk charge under the IMA</li> </ul> | 01-07-2023 | 01-07-2024 |
| 3.2.5.                         | Phase 2: SPT  | 01-01-2022 | 01-09-2024 |
| 3.2.6.                         | Communication of IMA phase 2 outcomes to banks  | 01-08-2024 | 01-09-2024 |
| 3.2.7                          | Regulatory reporting and capitalisation   | 01-09-2024 |            |
| <b>NEW APPLICATION PROCESS</b> |   |            |            |
| 3.3                            | New application process (for desks not submitted as part of IMA phase 1 and IMA phase 2): PA assessment, regulatory reporting and capitalisation processes and dates to be determined on a bilateral basis with banks   | 01-03-2024 |            |

**Table 4: Standardised approach work stream**

| <b>4. Standardised Approach (SA) work stream</b> |                           |                   |                 |
|--|---------------------------|-------------------|-----------------|
| <b>Index</b>                                     | <b>Stream</b>             | <b>Start date</b> | <b>End date</b> |
| 4.1  | SPT                       | 01-01-2022        | 01-01-2023      |
| 4.2  | Regulatory reporting      | 01-01-2023        |                 |
| 4.3  | Regulatory capitalisation | 01-01-2024        |                 |

**Table 5: Procedural guidelines work stream**

| <b>5. Procedural guidelines work stream</b> |   |                   |                 |
|---|---|-------------------|-----------------|
| <b>Index</b>                                | <b>Stream</b>   | <b>Start date</b> | <b>End date</b> |
| 5.1   | PA development and approval of procedural guidelines              | 01-01-2022        |                 |
| 5.2   | First issuance and engagement with banks on procedural guidelines | 01-07-2023        |                 |

## Appendix B - Revised Credit Valuation Adjustment Framework - implementation roadmap

**Table 6: Basic approach-CVA work stream**

| <b>1. Basic approach-CVA work stream</b> |                           |                   |                 |
|--|---------------------------|-------------------|-----------------|
| <b>Index</b>                             | <b>Stream</b>             | <b>Start date</b> | <b>End date</b> |
| 1.1.                                     | SPT                       | 01-01-2022        | 01-01-2024      |
| 1.2.                                     | Regulatory reporting      | 01-10-2023        |                 |
| 1.3.                                     | Regulatory capitalisation | 01-01-2024        |                 |

**Table 7: Standardised approach-CVA work stream**

| <b>2. Standardised approach-CVA work stream</b> |  |                   |                 |
|---|--|-------------------|-----------------|
| <b>Index</b>                                    | <b>Stream</b>  | <b>Start date</b> | <b>End date</b> |
| 2.1.  | SPT  | 01-01-2022        | 01-01-2024      |
| 2.2.  | Submission of application by banks to the PA   | 01-04-2023        | 01-04-2023      |
| 2.3.  | PA assessment of applications by banks   | 01-04-2023        | 01-09-2023      |
| 2.4.  | Communication of application outcomes to banks   | 01-09-2023        | 01-10-2023      |
| 2.5.  | Regulatory reporting   | 01-10-2023        |                 |
| 2.6.  | Regulatory capitalisation  | 01-01-2024        |                 |
| 2.7.  | New application process: PA assessment, regulatory reporting and capitalisation processes and dates to be determined on a bilateral basis with banks | 01-03-2024        |                 |

**Table 8: Procedural guidelines work stream**

| <b>3. Procedural guidelines work stream</b> |   |                   |                 |
|---|---|-------------------|-----------------|
| <b>Index</b>                                | <b>Stream</b>   | <b>Start date</b> | <b>End date</b> |
| 3.1   | PA development and approval of procedural guidelines              | 01-01-2022        |                 |
| 3.2   | First issuance and engagement with banks on procedural guidelines | 01-07-2023        |                 |