



Questionnaire on the assessment of the expected impact of implementing the revised credit valuation adjustment framework

Background and context

The revised CVA framework¹ is due for implementation in South Africa on 1 January 2024 and the Prudential Authority (PA) has published a draft Prudential Standard on CVA risk for informal consultation with the industry on 1 August 2022.

The Financial Sector Regulation Act (Act No 9 of 2017) (FSR Act) sets out the process for making standards. The FSR Act requires the PA to publish the following items before making a regulatory instrument: (i) a draft of the regulatory instrument, (ii) a statement of the need for and the intended operation of the proposed regulatory instrument, (iii) a statement of the expected impact of the regulatory instrument as well as (iv) a notice inviting submissions in relation to the regulatory instrument. In fulfilling the requirements of the FSR Act with regard to the statement of expected impact, the PA is seeking stakeholders' inputs on the expected impact of implementing the revised CVA rules in the domestic regulatory framework. The responses to this questionnaire as well as the accompanying quantitative impact study (QIS) template (Annexure F) will assist the PA in this regard.

Treatment of the responses

The responses received from all interested persons as part of this process will be taken into consideration, together with any further comments that may be received from interested persons on the framework when the PA finalises the Prudential Standard.

Information gathered through this questionnaire will be treated with strict confidentiality and only utilised for the purpose indicated above. The responses to the questionnaire will be anonymised and used to assess the possible impact of implementing the proposed revised CVA framework in South Africa.

Guidelines for completing the survey

The questionnaire is expected to be completed by all banks. Respondents are kindly required to submit the completed questionnaire and template on or before 31 October 2022 to the PA at: PA-Standards@resbank.co.za, for the attention of Ms N Malokotsi

¹ <https://www.bis.org/press/p200708.htm>

3. What are the envisaged advantages and disadvantages of the new capitalisation methodologies under the revised CVA rules?

Response:

4. What are the envisaged challenges and impact on the bank with respect to implementing the various components of the revised CVA rules?

Response:

5. What is the envisaged impact to the bank's existing product set, business model, operating model, strategy, and organisational resources, including systems and human capital? Please also expand on the costs incurred to date and the prospective annual costs of compliance once the implementation date is effective.

Response:

6. What are the envisaged advantages and disadvantages on the functioning of the South African financial markets, with respect to the macro and micro structures, and associated market liquidity? Should you have quantitative proof behind any arguments put forward, this should be provided accordingly. Should you not have any quantitative proof to support your arguments, please indicate how you arrived at your conclusions.

Response:

7. Are there any expected changes in the trading and hedging strategy due to the implementation of the proposed prudential standard on CVA risk?

Response:

8. What component(s) of the banks implementation project plan poses a challenge to the bank's readiness to implement the proposed prudential standard on CVA risk? Given the proposed approach to capital requirements will your organisation need to raise additional capital? Please elaborate.

Response:

PART 2: SUMMARY OF OVERALL IMPACT

9. Overall, do you foresee any challenges in complying with the proposed prudential standard on CVA risk? Please specify these and also provide suggestions on how the identified challenges could be mitigated.

Response:

10. Are there any other issues/concerns regarding the proposed prudential standard on CVA risk that you would like to bring to the attention of the PA? Please provide details.

Response: