

## **Questionnaire on assessment of the expected impact of proposed revised market risk regulatory framework**

### **Background and context**

The draft Prudential Standard on Market Risk published by the Prudential Authority (PA) for the first round of public consultation sets out the requirements for market risk that banks must comply with in line with sound practices and processes for managing market risks. The draft Standard covers the methodologies for the capitalisation of market risk exposures, composition, and management of trading desks as well the boundary between the banking book and the trading book, among other aspects.

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 market risk framework in the domestic regulatory framework. The responses to this questionnaire as well as the accompanying quantitative impact study (QIS) template will assist the PA in this regard.

Banks may leverage their responses to the revised market risk foundational application submitted to the PA on 1 July 2022.

### **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 market risk 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 December 2022 to the PA at: [PA-Standards@resbank.co.za](mailto:PA-Standards@resbank.co.za), for the attention of Ms N Malokotsi.



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

Response:

4. What are the envisaged advantages and disadvantages on the functioning of the South African financial markets, with respect to the macro and micro structures, specific asset classes 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:

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. Does the bank expect a benefit from adopting the internal models approach? What are the challenges faced in implementing the internal models approach under the revised market risk rules?

Response:

7. Which desk(s) is/are envisioned to be positively impacted by the implementation of the proposed prudential standard on market risk? Please provide details.

Response:

8. Which desk(s) is/are envisioned to be negatively impacted by the implementation of the proposed prudential standard on market risk? Please provide details.

Response:

9. Which asset class(es) is/are envisioned to be positively impacted by the implementation of the proposed prudential standard on market risk? Please provide details.

Response:

- 10.** Which asset class(es) is/are envisioned to be negatively impacted by the implementation of the proposed prudential standard on market risk? Please provide details.

Response:

- 11.** Are there any expected changes in the trading and hedging strategy due to the implementation of the proposed prudential standard on market risk?

Response:

- 12.** What component of the bank's implementation project plan poses a challenge to the bank's readiness for the implementation of the proposed prudential standard on market risk? In your response, if you could also touch on the elements pertaining to capital readiness, where additional capital might be required.

Response:

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

Response:

- 14.** Are there any other issues/concerns regarding the proposed framework that you would like to bring to the attention of the PA? Please provide details.

Response: