



Financial Sector Regulation Act 9 of 2017

Prudential Communication 14 of 2023

Revised Credit Valuation Adjustment Framework-Application Suite

Objective of this Prudential Communication

This Prudential Communication sets out the application suite for the revised Credit Valuation Adjustment framework.

The Basel Committee on Banking Supervision's (BCBS) revised Credit Valuation Adjustment (CVA) framework¹ (BCBS CVA framework), due for implementation in South Africa on 1 July 2025^{2,3}, bears reference.

The BCBS CVA framework prescribes specific (and discretionary) application requirements for banks that undertake relevant business and trading activities that generate CVA risk, for which supervisory acknowledgement and/or approval are required for regulatory capital purposes in terms of the basic approach (BA) or the standardised approach (SA) toward determining CVA capital requirements. In this regard, the Prudential Authority (PA) constructed an isolated extraction of application requirements (hereafter referred to as the CVA application suite) from the BCBS CVA framework that informs banks' submissions of relevant motivations, documentary evidence, and accompanying internal approvals for the PA's assessment.⁴ These requirements serve to demonstrate that the highest standards of rigour have been applied during banks' developmental and application compilation processes.

In light of the aforementioned development, the PA hereby informs all affected persons of the revised CVA application suite, as set out in Appendices A to C. Table 1 below sets out the structure of the appendices.

¹ The revised CVA framework, which had been integrated into the consolidated Basel Framework, can be accessed on:

https://www.bis.org/basel_framework/chapter/MAR/50.htm?inforce=20230101&published=20200708

² As per the schedule reflected in Guidance Note 3 of 2023

³ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2023/Prudential-Communication-10-of-2023-FRTB-and-CVA-implementation-roadmap>

⁴ These requirements follow similarly to Prudential Communication 1 of 2022 related to the revised market risk framework application suite.

Table 1: Appendix outline

Appendix	Description
Appendix A	Approval process requirements
Appendix B	General and BA-CVA application requirements
Appendix C	SA-CVA application requirements

This application suite is primarily relevant for banks implementing BA-CVA or applying for the use of SA-CVA for their South African operation and South African banks with operations outside of South Africa, in accordance with the consolidated bank requirements of the Regulations related to Banks.

As noted in Prudential Communication 9 of 2022⁵, the PA is currently engaged in the development of a prudential standard related to the BCBS CVA framework. Consequently, following the embedment of the CVA Prudential Standard into South Africa's legislative framework, the reference base of this application suite will be updated from the BCBS CVA framework to the envisaged prudential standard.

Banks are strongly encouraged to employ the full extent of their resources, capability, and governance to ensure that the requirements stipulated in this application suite are comprehensively addressed. Notwithstanding the minimum prescribed requirements contained in this application suite, banks should apply themselves rigorously, interrogate the complete BCBS CVA framework, and submit any additional applications or information as may be deemed relevant. Should banks foresee any challenges in addressing these requirements, it remains incumbent upon such banks to engage with the PA thereon in an expeditious manner.

Finally, should banks require further engagement and information related to this application suite, they may submit all correspondence to the PA Market Risk Division⁶, with the relevant PA front-line division copied, where applicable.

Fundi Tshazibana
Chief Executive Officer

Date:

⁵ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2022/Prudential-Communication-9-of-2022-FRTB-and-CVA-Draft-Prudential-Standards>

⁶ PA_RSD-MarketRisk@resbank.co.za

APPENDIX A: APPROVAL PROCESS REQUIREMENTS

This appendix sets out the approval process requirements required for the final submission to the PA. In this regard, the PA may request purpose-specific engagements with a bank's board of directors, senior management, and independent assurance/audit function while assessing relevant submissions.

The bank should ensure appropriately assigned senior management as an application agent(s) to ensure that the various requirements and prescribed or consequential dependencies set out in this application suite are comprehensively addressed and managed.

The approval process described in this appendix is illustrated in Figure 1 below. Each stage and set of constituent steps (where applicable) must be completed sequentially. An adverse outcome in one stage may influence the decision to proceed to the next stage.

Stage 1: Dual model governance

With respect to model governance for both BA-CVA and SA-CVA (if the bank is applying for the use of SA-CVA), the bank must submit a comprehensive model validation assessment, an independent assurance assessment of the model validation and associated approvals from its highest committees responsible for model governance and independent assurance/audit (against the minimum guidelines set out in Prudential Communication 7 of 2022⁷ and Prudential Communication 11 of 2023⁸) (collectively referred to as dual model governance), respectively. This dual model governance stage must be completed before entry into the dual application governance stage noted below.

Stage 2: Dual application governance

All application submissions must be accompanied by an associated independent assurance/audit assessment (against the minimum guidelines set out in Prudential Communication 7 of 2022) and approval from a bank's highest committees responsible for the oversight of risk and capital and assurance/audit (collectively referred to as dual application governance), respectively. The submissions to the relevant committees in the dual application governance stage must include the outcome of the preceding dual model governance stage, where applicable. The dual application governance stage is not required when the bank is implementing only BA-CVA with no application components. In this regard, the outcome of the model governance committee in Stage 1 may be submitted directly to the risk and capital committee in Stage 2, and the outcome related to model validation assurance at the assurance/audit committee in Stage 1 may be submitted directly to the bank's board of directors.⁹

⁷ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/public-awareness/Communication/2022/Prudential-Communication-7-of-2022-FRTB-and-CVA-Independent-assurance-guidelines>

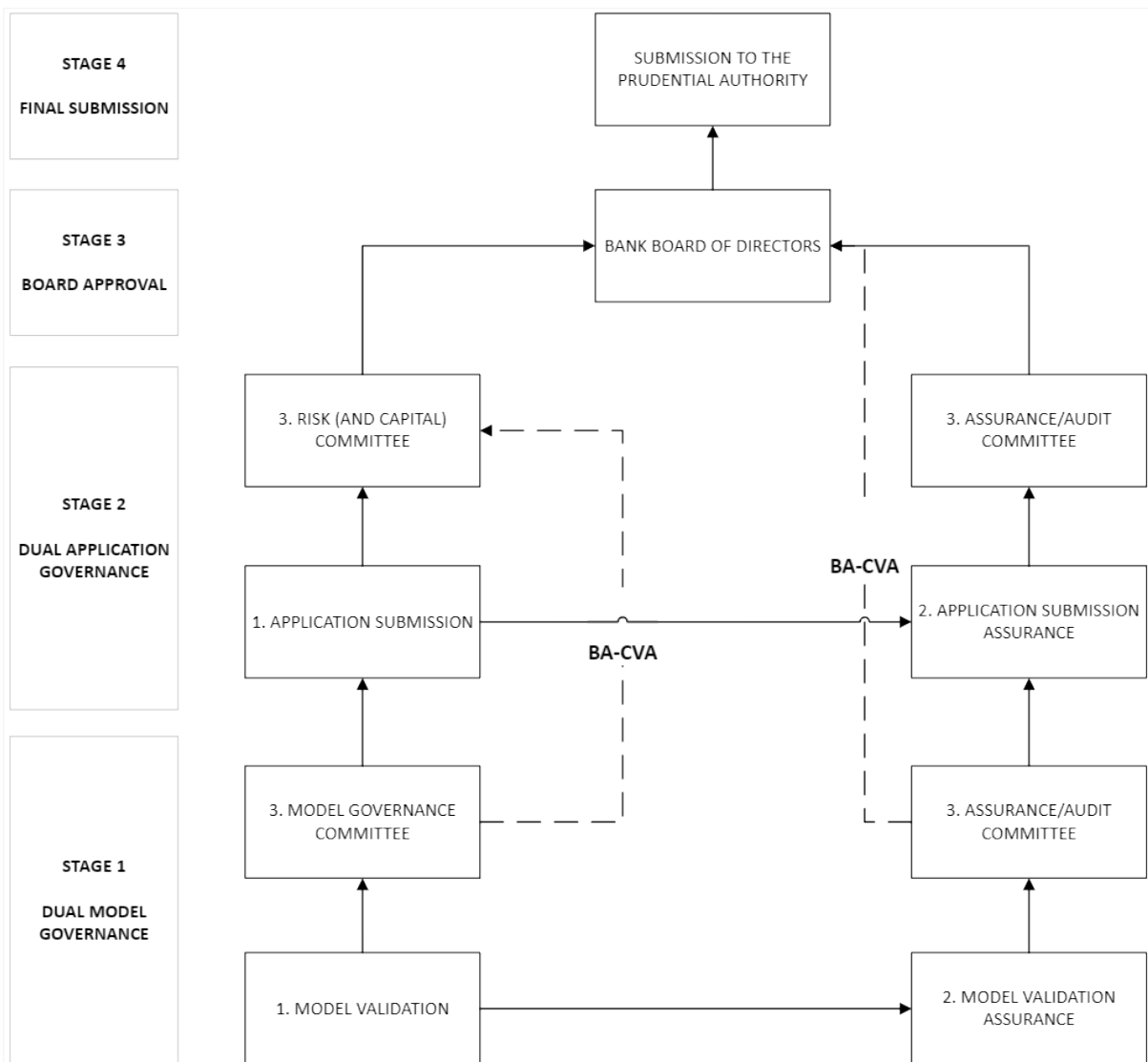
⁸ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/public-awareness/Communication/2023/Prudential-Communication-11-of-2023-FRTB-and-CVA-Model-validation-and-model-validation-assurance-guidelines>

⁹ This exception for BA-CVA is illustrated by the dashed lines in Figure 1 below.

Stage 3: Board approval

The results of the dual model governance stage and dual application governance stage (noting the exception for BA-CVA above) must be submitted to a bank’s board of directors to facilitate the final approval process for submission to the PA. If any of the application and/or model governance components present concerns, the bank’s board of directors must exercise its judgement in terms of withholding the final submission to the PA to ensure the remediation of any material deficiencies. Should this decision lead to the final submission exceeding the milestones stipulated in Prudential Communication 10 of 2023, the bank must inform the PA in writing ahead of such stipulated milestones. Lastly, the final submission to the PA (denoted by Stage 4 in Figure 1 below) must also include all assessment reports, minutes of the respective committee meetings, and the final board resolution.

Figure 1: Approval process



APPENDIX B: GENERAL REQUIREMENTS AND BA-CVA

Table 2: General requirements and BA-CVA

BCBS CVA framework reference	Descriptive reference
1. MAR 50.5(1)	Materiality of securities financing transactions
2. MAR 50.16	Mapping of internal credit ratings to external credit ratings

The requirements in Table 2 above are expanded in the sections below.

1. **Materiality of securities financing transactions (MAR 50.5(1))**

A bank that deems its exposures to securities financing transactions (SFTs) as immaterial must justify its assessment to the PA by providing the necessary supporting evidence if it so wishes to exclude SFTs as covered transactions.

2. **Mapping of internal credit ratings to external credit ratings (MAR 50.16)**

A bank must submit the necessary documentary evidence to the PA in instances where it is of the view that internal credit ratings should be mapped to external credit ratings for specific counterparties.

APPENDIX C: STANDARDISED APPROACH-CVA

Table 3: SA-CVA application requirements

BCBS CVA framework reference/PA requirement	Descriptive reference
1. Structural changes to the bank	As noted in the paragraph 1 below
2. MAR 50.30(2)	CVA desk(s) or function requirement
3. MAR 50.32(1)-(9)	Regulatory CVA computation principles
4. MAR 50.34(1)-(3)	Generation of market risk factor paths
5. MAR 50.36(1)-(11)	Exposure model-governance

The requirements in Table 3 above are expanded in the sections below.

1. Structural changes to the bank

The bank must submit motivation and necessary documentary evidence of any changes to its structures and staff (across the trading, risk, finance, technology, model development, model validation, internal audit, and back-office functions, among others deemed relevant), oversight and governance committees, solo and cross-departmental policies (if any), procedures and processes, business and operating models and strategy in response to the implementation of the BCBS CVA framework. Where this response overlaps with any other aspect of the application suite, this must be indicated accordingly with appropriate references to the relevant overlapping components.

2. CVA desk(s) or function requirement (MAR 50.30(2))

The bank must submit the necessary documentary evidence pertaining to the construction and mechanical functioning of the dedicated CVA desk(s)/function responsible for the management and hedging of CVA risk to the PA for consideration as part of the overall SA-CVA assessment. In addition, among various considerations deemed relevant, the bank must submit all appropriate documentation addressing the desk(s) policy documents, business strategy, trading and risk management staff structures, and trading and risk management systems.

3. Regulatory CVA computation principles (MAR 50.32(1)-(9))

The bank must submit the necessary documentary evidence demonstrating compliance with the principles set out in MAR 50.32(1)-(9). In the case of MAR 50.32(3)(b), should a bank require mapping an illiquid counterparty to a single liquid reference name, the bank must submit the necessary documentary evidence to the PA in support of the mapping.

4. Generation of market risk factor paths (MAR 50.34(1)-(3))

The bank must submit the necessary documentary evidence demonstrating compliance with the requirements in MAR 50.34(1)-(3).

5. Exposure model-governance (MAR 50.36(1)-(11))

The bank must submit the necessary documentary evidence demonstrating compliance with the requirements in MAR 50.36(1)-(11).