



## **Banks Act, 1990 (Act No. 94 of 1990)**

## **Financial Sector Regulation Act 9 of 2017**

## **Prudential Communication 1 of 2024**

### **Revised Credit Valuation Adjustment Framework: application suite for the use of the simplified method towards the computation of credit valuation adjustment capital requirements**

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

This Prudential Communication sets out the application suite for the use of the simplified method towards the computation of credit valuation adjustment capital requirements in accordance with the Basel Committee on Banking Supervision's revised Credit Valuation Adjustment framework.

The Basel Committee on Banking Supervision's (BCBS) revised Credit Valuation Adjustment (CVA) framework<sup>1</sup> (BCBS CVA framework), due for implementation in South Africa on 1 July 2025 as per Guidance Note 3 of 2023<sup>2</sup> and Prudential Communication 10 of 2023<sup>3</sup>, 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. As noted in Prudential Communication 10 of 2023, banks will be able to apply for the use of the standardised approach for counterparty credit risk in determining credit valuation adjustment capital requirements.

In light of the aforementioned development, the Prudential Authority (PA) hereby informs all affected persons of the application suite for the use of the standardised approach for counterparty credit risk towards the computation of CVA capital requirements, as set out in Appendices A and B. Table 1 below sets out the structure of the appendices.

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<sup>1</sup> 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](https://www.bis.org/basel_framework/chapter/MAR/50.htm?inforce=20230101&published=20200708)

<sup>2</sup> <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-deposit-takers/banks-guidance-notes/2023/G3-2023-Proposed-implementation-dates-in-respect-of-specified-regulatory-reforms>

<sup>3</sup> <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>

**Table 1: Appendix outline**

| <b>Appendix</b> | <b>Description</b>                |
|-----------------|-----------------------------------|
| A               | General application questionnaire |
| B               | Governance requirements           |

As a guide for the construction of relevant applications, reference should be made to Prudential Communication 15 of 2023: Annexure H-Determination of thresholds in terms of the Prudential Standard on Credit Valuation Adjustment.<sup>4</sup> Annexure H provides the proposed qualitative and quantitative criteria for prospective applicants to be considered eligible to apply for the use of the standardised approach for counterparty credit risk in determining CVA capital requirements.

In accordance with the BCBS CVA framework, the PA will assess banks' applications and consider the level of CVA risk resulting from the bank's derivative positions and securities financing transactions, and the contribution thereof to the overall risk of the bank.

Banks are strongly encouraged to employ the full extent of their resources, capability, and governance to ensure that the questionnaire and 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 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.

Applications addressing the requirements set out in Appendix A and Appendix B may be submitted by close of business on 3 June 2024.<sup>5</sup>

Finally, should banks require further engagement and information related to this application suite, they may submit all correspondence to the PA Market Risk Division<sup>6</sup>, with the relevant PA front-line division copied, where applicable.

**Fundi Tshazibana**  
**Chief Executive Officer**

**Date:**

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<sup>4</sup> <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2023/Prudential-Communication-15-of-2023-Notice-of-Invitation-for-Comment-FRTB-and-CVA>

<sup>5</sup> This is a revision of the due date specified in Prudential Communication 10 of 2023.

<sup>6</sup> [PA\\_RSD-MarketRisk@resbank.co.za](mailto:PA_RSD-MarketRisk@resbank.co.za)

## **APPENDIX A: GENERAL APPLICATION QUESTIONNAIRE**

1. Does your bank satisfy the requirements set out in Prudential Communication 15 of 2023: Annexure H towards the application for the use of the standardised approach for counterparty credit risk in determining CVA capital requirements?
2. What is your bank's aggregate gross notional amount of non-centrally cleared over-the-counter derivative transactions? Please provide your response in South African Rand (ZAR) for the close of business on 30 January 2024.
3. Does your bank have an active trading operation? If so, please provide a high-level description of your strategy and business model.
4. Describe in full how your bank incurs CVA risk.
5. What is your bank's CVA risk-weighted exposure in ZAR at the close of business on 30 January 2024?
6. Does your bank actively hedge its CVA risk? If so, elaborate on the type of hedges entered into. If your bank does not actively hedge its CVA risk, explain why, including any measures to monitor the levels of unhedged CVA risk.
7. Please provide any supplementary motivation further to the questions above, as may be deemed relevant, to support the application.

## **APPENDIX B: GOVERNANCE REQUIREMENTS**

The application must be tabled for approval at the bank's risk and capital committee. In addition, a limited assurance engagement on the application must be conducted by the bank's independent assurance/audit function. The outcome of the engagement must be tabled for approval at the bank's internal assurance/audit committee.<sup>7</sup> The primary objective of the assurance/audit engagement and associated governance requirement is to ensure the completeness and validity of the application. A joint sitting of the internal assurance/audit committee and the risk and capital committee will not be permitted.

The bank's chief executive officer must evaluate the outcomes from the internal assurance/audit committee and the risk and capital committee sittings and approve the final application submission to the PA. The final submission to the PA must include an appropriate cover letter signed by the bank's chief executive officer, the application, the assurance/audit report, and the relevant minutes of the internal assurance/audit committee and the risk and capital committee sittings.

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<sup>7</sup> Please refer to Prudential Communication 7 of 2022 for further guidance on independent assurance/audit engagements related to application submissions (<https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2022/Prudential-Communication-7-of-2022-FRTB-and-CVA-Independent-assurance-guidelines>)