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South African Reserve Bank
Prudential Authority

Prudential Communication 12 of 2024

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

Minimum readiness and attestation requirements for the implementation of the revised market risk and credit valuation adjustment frameworks

Objective of this Prudential Communication

This Prudential Communication sets out the readiness and attestation requirements for banks' implementation of the Basel Committee on Banking Supervision's revised market risk and credit valuation adjustment frameworks.

The Basel Committee on Banking Supervision's (BCBS) revised market risk[1] and credit valuation adjustment[2] (CVA) frameworks[3], due for implementation in South Africa on 1 July 2025[4], bears reference.

Prudential Communication 10 of 2023 sets out a requirement for banks to submit an implementation readiness approval and attestation to the Prudential Authority (PA) ahead of the respective regulatory capitalisation dates for various sub-components of the revised market risk and CVA frameworks.[5]

The PA hereby informs all affected persons of the implementation readiness requirements as set out in appendices A to C. Table 1 below sets out the structure of the appendices.

Table 1: Appendix outline

Appendix	Description
A	Minimum implementation readiness requirements
B	Governance requirements
C	Post-implementation review reporting requirement

[1] https://www.bis.org/basel_framework/standard/MAR.htm?tldate=20240803
[2] https://www.bis.org/basel_framework/chapter/MAR/50.htm?inforce=20230101&published=20200708
[3] 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
[4] As per the schedule reflected in Guidance Note 3 of 2023
[5] 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

Appendix A sets out the PA's minimum requirements for banks to complete their internal implementation readiness process prior to submission to the PA. Appendix B sets out the governance processes that must be followed to approve the submission to the PA.

In addition, banks will be required to submit post-implementation review reports to the PA after one month, after three months and after six months, highlighting any critical issues faced. In this regard, Appendix C provides a minimum criterion set of the areas to be explicated in the post-implementation review reports.

Banks are strongly encouraged to employ the full extent of their resources, capability, and governance to ensure that the minimum implementation requirements contained in this prudential communication are comprehensively addressed. Notwithstanding the requirements contained in this prudential communication, banks should apply themselves rigorously and build other implementation readiness mechanisms as may be deemed relevant. Should banks foresee any challenges in addressing the requirements set out in this prudential communication, 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 prudential communication, they may submit all correspondence to the PA Market Risk Division[6], with the relevant PA front-line division copied, where applicable.

Fundi Tshazibana

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Chief Executive Officer

Date: 15/10/24

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APPENDIX A: MINIMUM IMPLEMENTATION READINESS REQUIREMENTS

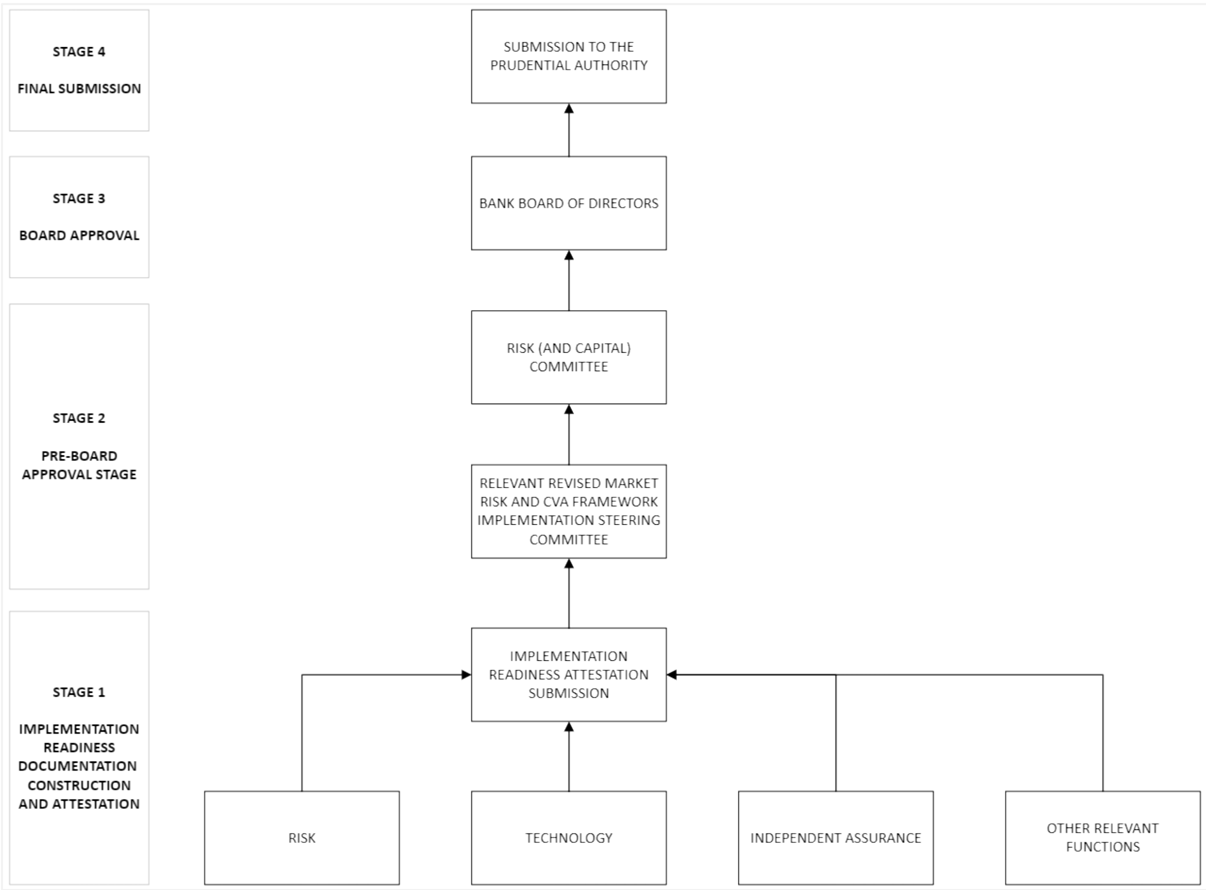
Table 2: Minimum implementation readiness requirements

Index	Requirement
1	Banks must construct a robust implementation readiness plan at least three months before the revised market risk and CVA frameworks are implemented. Furthermore, the bank's independent assurance function must ensure a quality assurance check on the implementation readiness plan. This implementation readiness plan will be the basis for the final submission and attestation to the bank's board and subsequent submission to the PA. Banks may optionally have their respective boards approve the implementation readiness plan prior to the final attestation process.
2	As part of the implementation readiness plan, banks must develop a risk assessment highlighting potential issues and, accordingly, ensure that appropriate, well-documented contingency plans are in place.
3	Banks must ensure that all approved trading desks forming part of the implementation are activated and ready prior to implementation. Where banks obtained approval from the PA for relevant components of the revised market risk and CVA frameworks, they must ensure strict adherence to such approvals.
4	All software (including pricing and risk libraries) and infrastructure (both on-premises and cloud-based) required for the go-live must be production-ready prior to implementation and have the relevant backup and disaster recovery plans in place.
5	All systems (such as risk and internal or regulatory reporting), policies, procedures, and processes associated with the revised market risk and CVA frameworks must be prepared prior to implementation.
6	All relevant governance structures should be identified and appropriately adapted for implementation.
7	Banks should hold at least one implementation simulation exercise to test the validity and veracity of their implementation readiness plans.
8	Banks must ensure the readiness of the relevant staff to discharge their duties post-implementation. Accordingly, banks should have completed their core training programmes in preparation for implementation and have ongoing support for at least six months post-implementation to cater for any emergent factors requiring training.
9	Banks must have sufficient capital and liquidity buffers in place to absorb any unforeseen implementation impacts.
10	Banks must have constructed and executed client communication plans, particularly where they envisage drastic pricing and fee impacts on their clients.
11	Banks must ensure that all third-party and vendor arrangements are appropriately updated and in place for implementation.
12	In response to the above requirements (at a minimum), the bank's independent assurance function must review the attestation report to test the validity and veracity of the responses against functional checks in the relevant area against the implementation readiness plan. This review may be conducted on a reasonable assurance basis.

APPENDIX B: GOVERNANCE REQUIREMENTS

As a minimum, the implementation readiness requirements and attestation towards completion thereof must be tabled at the following governance committees, as illustrated in Figure 1 below, prior to submission to the PA. Banks are required to table the implementation readiness submission and associated attestation at a relevant project steering committee and its risk (and capital) committee prior to submission to the board for approval for submission to the PA. Should an appropriate project steering committee not exist within a particular bank, the bank may submit the implementation readiness submission and associated attestation directly to its risk (and capital) committee. In addition, banks may optionally table the implementation readiness submission and associated attestation at other governance structures to strengthen the submission as may be deemed relevant.

Figure 1: Minimum approval process



APPENDIX C: POST-IMPLEMENTATION REVIEW REPORTING REQUIREMENT

The questions set out in Table 3 below will form a reporting requirement to the PA one month, three months, and six months, respectively, from the implementation date of the revised market risk and CVA frameworks. There are no governance requirements for the post-implementation reporting to the PA.

Table 3: Post-implementation review reporting requirement questions

Index	Question to be addressed
1	Did the bank observe any adverse impacts and unforeseen events against its implementation readiness plan?
2	Did the bank invoke any of its contingency plans? If so, please elaborate in detail.
3	Did the bank observe any significant pricing, liquidity, or capital impacts?
4	Did the bank observe any system, policy, procedural, or process issues? If so, please provide a descriptive and diagnostic analysis of the event(s) and what tactical and strategic interventions were introduced.