

Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)

Prudential Communication 18 of 2024

Revised market risk and credit valuation adjustment frameworks-implementation roadmap

Objective of this prudential communication

This prudential communication outlines a high-level implementation roadmap for the revised market risk and credit valuation adjustment frameworks and replaces Prudential Communication 10 of 2023.

The Basel Committee on Banking Supervision's (BCBS) Revised Minimum Capital Requirements for Market Risk, also referred to as the Fundamental Review of the Trading Book (FRTB), and the Revised Credit Valuation Adjustment framework (CVA), due for implementation in South Africa on 1 July 2025¹ (the FRTB and CVA implementation date) bear reference.

The Prudential Authority (PA) hereby informs all affected persons of the FRTB and CVA frameworks' implementation roadmap set out in Appendices A to E, respectively. Appendices C to E form key revisions, amongst others, to Prudential Communication 10 of 2023². This prudential communication replaces Prudential Communication 10 of 2023.

Table 1 below sets out an index map for the appendices contained in this prudential communication.

Table 1: Appendix index map

Appendix	Description
Appendix A	Revised market risk framework-implementation roadmap
Appendix B	Revised credit valuation adjustment framework-implementation roadmap
Appendix C	Regulatory reporting requirements (pre-capitalisation)
Appendix D	New trading desk application requirements (pre-implementation date)
Appendix E	Transmission build to the Umoja system

¹ As per the schedule reflected in Guidance Note 3 of 2023.

² <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>

The implementation roadmap addresses various technical, assurance, and governance milestones.³ It is intended to guide project planning initiatives within the PA and across supervised banks in preparation for the FRTB and CVA implementation date. The implementation milestones presented in Appendices A to E may be subject to additional specialised communication and revision, with due consideration to the impact on banks' preparatory programmes ahead of the FRTB and CVA implementation date.⁴

All capitalisation dates for the FRTB and CVA frameworks will follow Guidance Note 3 of 2023 (including any revisions thereof as may be issued by the PA). In addition, banks will now be required to commence a dual regulatory reporting arrangement based on the dates and requirements stipulated in Appendices A to C or other such guidance as may be communicated by the PA. This dual regulatory reporting arrangement refers to both obligations under the current rules and the pre-capitalisation requirements stipulated in Appendix C.

Further communication will be circulated to banks through the course of implementation, which may include specific dates and additional information on the technical and processual aspects of the implementation milestones, where relevant. All details behind the submission of applications and other such requirements will be handled separately (unless otherwise indicated), but remain informed by the milestones noted in this implementation roadmap.

The following paragraphs set out key updates since the issuance of Prudential Communication 10 of 2023 and for which this prudential communication draws and builds upon.

One such update relates to the issuance of Prudential Communication 15 of 2023⁵, which set out the proposed rules and regulatory reporting metrics. Appendix C draws from the proposed regulatory reporting metrics set out in Prudential Communication 15 of 2023.

Appendix E provides key updates regarding the transmission build for regulatory reporting data to the PA's Umoja system. Building upon this appendix, the technological and process-related activity streams are captured in Appendices A and B as system and process development and testing (SPDT).⁶

As the FRTB and CVA implementation date approaches, banks' implementation readiness becomes a focal concern for the PA. Accordingly, a key milestone across Appendices A and B includes the requirement for a submission related to

³ All dates specified in this prudential communication will adhere to a modified following business day convention and will roll to the next business day in the South African calendar, should it fall on a weekend or South African public holiday.

⁴ Dates that have elapsed have been retained from Prudential Communication 7 of 2021, Prudential Communication 8 of 2022, and Prudential Communication 10 of 2023 to ensure an integrative record of the implementation roadmap from the point of origin.

⁵ <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>

⁶ Any milestone that is yet to be finalised will be reflected as "to be determined (TBD)" in Appendices A and B

implementation readiness and associated attestations. In this regard, banks must refer to the requirements set out in Prudential Communication 12 of 2024.⁷

With respect to all new application processes post the FRTB and CVA implementation date, the PA will provide relevant guidance in due course.

Finally, banks are encouraged to employ the full extent of their resources, capability, and governance, including (but not limited to) mandatory approval (as stipulated in the relevant communications from the PA) and oversight from the highest committees responsible for risk and capital, assurance/audit, model governance, and the board of directors of the bank to ensure that the implementation of the FRTB and CVA frameworks remain sound and robust.

Should banks foresee any challenges in meeting the implementation milestones set out in Appendices A to E, it remains incumbent upon such banks to engage with the PA thereon in an expeditious manner.

All requests for further information related to this prudential communication may be submitted via email to the PA's Market Risk Division⁸, with the relevant PA front-line division copied, where applicable.

Yours sincerely

Fundi Tshazibana
Chief Executive Officer

Date:

⁷ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2024/Prudential-Communication-12-of-2024-Minimum-readiness-and-attestation-requirements-for-the-implementation-of-FRTB-and-CVA>

⁸ PA_RSD-MarketRisk@resbank.co.za

APPENDIX A - REVISED MARKET RISK FRAMEWORK-IMPLEMENTATION ROADMAP

1. Foundational workstream

Index	Stream	Start date	End date
1.	Submission of applications by banks to the PA	01-07-2022	
2.	PA assessment of applications by banks	01-07-2022	01-01-2024
3.	Communication of application outcomes to banks	01-01-2024	01-03-2024
4.	SPDT	01-01-2022	01-07-2025
5.	Submission of implementation readiness approval and attestation to the PA	01-05-2025	
6.	Regulatory reporting	01-01-2025	
7.	Activation of the foundational requirements (in line with the broader capitalisation requirements)	01-07-2025	
8.	Submission prior to the FRTB and CVA implementation date of changes to banks' existing trading businesses (trading desks, etc.) impacting the original foundational application submitted on 01-07-2022 ⁹	01-04-2025	
9.	New application process (post 1 July 2025)	01-10-2025	

2. Simplified standardised approach workstream

Index	Stream	Start date	End date
1.	Submission of applications by banks to the PA	01-03-2022	
2.	PA assessment of applications by banks	01-03-2022	01-07-2022
3.	Communication of application outcomes to banks ¹⁰	01-07-2022	01-08-2022
4.	SPDT	01-01-2022	01-07-2025
5.	Submission of implementation readiness approval and attestation to the PA	01-05-2025	
6.	Regulatory reporting	01-01-2025	
7.	Regulatory capitalisation	01-07-2025	
8.	New application process (post 1 July 2025)	01-10-2025	

⁹ Please refer to Appendix D.

¹⁰ Banks that do not receive approval for any part of their application will be required to capitalise under the FRTB-standardised approach, submit an FRTB Foundational Application, and should commence the build of the relevant capability to meet the milestones stipulated in this prudential communication and any other direct communication from the PA. Where specific milestones have been passed, banks should engage accordingly with the PA.

3. Internal models approach workstream¹¹

Index	Stream	Start date	End date
Internal models approach (IMA)-phase 1 (phase 2)			
1.	Submission of application by banks to the PA for the first (<i>second</i>) subset of prospective IMA trading desks	01-07-2022 (01-07-2023)	
2.	PA assessment of applications by banks (for entry into the IMA initial monitoring and live testing run)	01-07-2022 (01-07-2023)	01-10-2022 (01-10-2023)
3.	Communication of application outcomes to banks for participation in the IMA initial monitoring and live testing run: <ul style="list-style-type: none"> Banks applying for the use of an IMA are expected to ensure full readiness of their infrastructural and processual capabilities to commence with the IMA initial monitoring and live testing run. 	01-10-2022 (01-10-2023)	01-11-2022 (01-11-2023)
4.	Initial monitoring and live testing run <ul style="list-style-type: none"> Banks are required to make monthly submissions for a period of one year, with a final end-to-end assessment to be submitted to the PA on 01-12-2023 (01-12-2024) (submission templates to be prescribed) The PA will inform banks of the outcome of the general risk component for the live testing run. Following this point, banks may submit an application to the PA to model the default risk charge under the IMA (as such, banks should ensure the readiness of the application to model the default risk charge under the IMA by the conclusion of the initial monitoring and live testing run). 	01-11-2022 (01-11-2023)	01-11-2023 (01-11-2024)
5.	Submission of model validation, independent model validation assurance assessments, and associated governance approvals (including the default risk charge model) <ul style="list-style-type: none"> This submission is contingent on the successful completion of the general risk component and will be made subsequent to the completion of the IMA initial monitoring and live testing run for phase 1 (phase 2) and prior to the communication of the overall phase 1 (phase 2) outcomes 	For IMA application submissions post 1 July 2025, new guidelines will be provided in due course	
6.	Communication of application outcomes to banks	01-05-2024 (01-05-2025)	01-06-2024 (01-06-2025)
7.	SPDT	01-01-2022	01-07-2025 (01-07-2026)
8.	Submission of implementation readiness approval and attestation to the PA	01-05-2025 (01-05-2026)	
9.	Regulatory reporting	01-01-2025 (01-01-2026)	
10.	Regulatory capitalisation	01-07-2025 (01-07-2026)	
11.	New application process (post 1 July 2025)	01-10-2025	

¹¹ Specifications reflected in parenthesis and italics are indicative of Phase 2 milestones, in line with Prudential Communication 7 of 2021, Prudential Communication 8 of 2022, and Prudential Communication 10 of 2023.

4. Standardised approach workstream

Index	Stream	Start date	End date
1.	Submission of relevant application considerations by banks to the PA ¹²	01-07-2022	01-12-2022
2.	PA assessment of applications by banks	01-07-2022	01-01-2024
3.	Communication of application outcomes to banks	01-01-2024	01-03-2024
4.	SPDT	01-01-2022	01-07-2025
5.	Submission of implementation readiness approval and attestation to the PA	01-05-2025	
6.	Submission of model validation, independent model validation assurance assessments, and associated governance approvals	01-03-2024	
7.	Regulatory reporting	01-01-2025	
8.	Regulatory capitalisation	01-07-2025	
9.	New application process (post 1 July 2025)	01-10-2025	

5. Quantitative and qualitative impact testing

Index	Stream	Start date	End date
1.	Pre-capitalisation	01-01-2025	01-07-2025
2.	Post-capitalisation	01-07-2025	01-07-2026

6. Procedural guidelines workstream

Index	Stream	Start date	End date
1.	PA development and approval of procedural guidelines	01-01-2022	TBD
2.	First formal issuance and engagement with banks on procedural guidelines	01-06-2025	

¹² These application components are in line with the prescriptions of Prudential Communication 1 of 2022 and other such aspects in the BCBS framework.

APPENDIX B - REVISED CREDIT VALUATION ADJUSTMENT FRAMEWORK-IMPLEMENTATION ROADMAP

1. Basic approach-CVA workstream

Index	Stream	Start date	End date
1.	Component-specific application submissions by banks to the PA	01-03-2024	
2.	PA assessment of component-specific applications by banks	01-03-2024	01-12-2024
3.	Communication of component-specific application outcomes to banks	01-12-2024	01-01-2025
4.	SPDT	01-01-2022	01-07-2025
5.	Submission of implementation readiness approval and attestation to the PA	01-05-2025	
6.	Submission of model validation, independent model validation assurance assessments, and associated governance approvals	01-03-2024	
7.	Regulatory reporting	01-01-2025	
8.	Regulatory capitalisation	01-07-2025	
9.	New component-specific application process (post 1 July 2025)	01-10-2025	

2. Standardised approach-CVA workstream¹³

Index	Stream	Start date	End date
1.	Submission of applications by banks to the PA	01-03-2024 <i>(01-03-2025)</i>	
2.	Submission of model validation, independent model validation assurance assessments, and associated governance approvals	01-03-2024 <i>(01-03-2025)</i>	
3.	PA assessment of applications by banks	01-03-2024 <i>(01-03-2025)</i>	01-12-2024 <i>(01-03-2026)</i>
4.	Communication of application outcomes to banks	01-12-2024 <i>(01-03-2026)</i>	01-01-2025 <i>(01-04-2026)</i>
5.	SPDT	01-01-2022	01-07-2025 <i>(01-07-2026)</i>
6.	Submission of implementation readiness approval and attestation to the PA	01-05-2025 <i>(01-05-2026)</i>	
7.	Regulatory reporting	01-01-2025 <i>(01-05-2026)</i>	
8.	Regulatory capitalisation	01-07-2025 <i>(01-07-2026)</i>	
9.	New application process (post 1 July 2025) ¹⁴	01-10-2025	

¹³ Specifications reflected in parenthesis and italics are indicative of Phase 2 milestones. Banks may choose either Phase 1 or Phase 2 to make their application, depending on readiness, amongst other factors.

¹⁴ Note that applications received as part of Phase 2 submissions will receive assessment priority.

3. Applications for the use of the standardised approach for counterparty credit risk in computing CVA capital requirements

Index	Stream	Start date	End date
1.	Submission of applications by banks to the PA	01-03-2024	
2.	PA assessment of applications by banks	01-03-2024	01-12-2024
3.	Communication of application outcomes to banks	01-12-2024	01-01-2025
4.	Regulatory reporting	01-01-2025	
5.	Regulatory capitalisation	01-07-2025	
6.	New application process (post 1 July 2025)	01-10-2025	

4. Quantitative and qualitative impact testing

Index	Stream	Start date	End date
1.	Pre-capitalisation	01-01-2025	01-07-2025
2.	Post-capitalisation	01-07-2025	01-07-2026

5. Procedural guidelines workstream

Index	Stream	Start date	End date
1.	PA development and approval of procedural guidelines	01-01-2022	TBD
2.	First formal issuance and engagement with banks on procedural guidelines	01-06-2025	

APPENDIX C - REGULATORY REPORTING REQUIREMENTS (PRE-CAPITALISATION)

As stipulated in this appendix, banks must comply with the relevant regulatory reporting requirements from 1 January 2025 to 30 June 2025 to support pre-capitalisation monitoring and supervisory engagements.¹⁵

Banks must submit the relevant quantitative metrics set out in the tables in this appendix under the proposed rules in the prudential standards accompanying Prudential Communication 15 of 2023 for FRTB-SA and BA-CVA against the schedule set out in **Table 2** below. In this regard, banks must submit the relevant quantitative data in ZAR on an Excel spreadsheet, accompanied by brief commentary where deemed appropriate.

Where indicated, the data must be populated at a bank-solo level for the South African entity and at a bank-consolidated level. If the entity in question is a branch, only the data associated with the branch must be submitted. If a bank has been approved or intends to employ the FRTB-simplified standardised approach, no reporting requirements apply within the context of this appendix at a bank-solo level. Similarly, if a bank has been approved or intends to employ the simplified alternative for CVA capital requirements, in line with Prudential Communication 1 of 2024¹⁶, no reporting requirements apply within the context of this appendix from a bank solo level. Where banks have applied for specific exclusions or the use of alternative methodologies, such as that incorporated in Prudential Communication 14 of 2023¹⁷, they must continue to report without any exceptions until they receive approval for their respective applications. Following the receipt of such approvals, they may implement the relevant changes and report accordingly.

Furthermore, banks must briefly comment on any structural changes observed within the respective markets they participate in across asset classes and geographies. The dimensions that may be addressed include pricing, market liquidity, and changes to market participation levels, amongst others. Whilst these dynamics may shift during normal or stressed trading conditions, the PA is particularly interested in any structural changes observed. As such, banks should consider a deeper inspection of focal markets when formulating their responses. The submissions will follow the same periodicity as noted in **Table 2** below.

In addition to the periodic submissions based on respective dates, banks must also offer a comparative analysis across the quantitative and qualitative dimensions when progressing through the schedule noted in **Table 2** below. This will assist the PA in understanding specific and cumulative changes in banks' data and relevant market conditions.

¹⁵ This draws upon the dual regulatory reporting arrangements mentioned earlier.

¹⁶ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2024/Prudential-Communication-1-of-2024-Simplified-CVA-Approach-Application-Suite>

¹⁷ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2023/Prudential-Communication-14-of-2023-CVA-Application-Suite>

Finally, banks may submit an integrated report via the Umoja system in a PDF document (accompanied by the Excel spreadsheet for the quantitative data mentioned above). The submission should be signed by the bank’s chief risk officer.

Table 2: Regulatory reporting schedule (January 2025 to June 2025)

Period	Reporting periodicity	Submission protocol
1 January 2025 to 30 May 2025	Monthly	Banks must submit data for the first business day of the month, on a T + 10 basis, by 17:00 South African time.
1 June 2025 to 30 June 2025	Weekly	Banks must submit data for the first business day of the week, on a T + 5 basis, by 17:00 South African time.

Table 3: FRTB Standardised Approach-desk information

Desks	Description-regulatory trade desk name	Description of main activities conducted
Desk 1		
...		
Desk n		

Table 4: FRTB Standardised Approach-bank solo level¹⁸

FRTB standardised approach component (inclusive of securitisations)	Desk 1	...	Desk n	Commentary
Sensitivities-based method capital requirement				
Delta				
General interest rate risk				
Credit spread risk				
Equity risk				
Commodity risk				
Foreign exchange risk				
Vega				
General interest rate risk				
Credit spread risk				
Equity risk				
Commodity risk				

¹⁸ The metrics in this table follows the proposed metrics contained in Prudential Communication 15 of 2023.

Foreign exchange risk				
Curvature				
General interest rate risk				
Credit spread risk				
Equity risk				
Commodity risk				
Foreign exchange risk				
Residual risk (inclusive of prepayment and other risks)				
Gap risk				
Correlation risk				
Behavioural risk				
Risk from an exotic underlying				
Default risk capital requirement				
Total capital requirement (sensitivities-based method + residual risk + default risk)				

Table 5: Credit Valuation Adjustment-bank solo level¹⁹

Approach	Capital (securities financing transactions only)	Capital (derivatives only)
Reduced BA-CVA		
Full BA-CVA-total		
K_Reduced		
K_Hedged		
K_Full		

Table 6: Total market risk and CVA capital requirements-bank solo level

Regime	Total capital
Market Risk-Current rules	
Market Risk-Proposed rules	
CVA-Current rules	
CVA-Proposed rules	

Table 7: Total market risk and CVA capital requirements-consolidated level

Regime	Total capital
Market Risk-Current rules	
Market Risk-Proposed rules	
CVA-Current rules	
CVA-Proposed rules	

¹⁹ Banks may submit data for either the reduced or full approach for BA-CVA.

APPENDIX D - NEW TRADING DESK APPLICATION REQUIREMENTS (PRE-IMPLEMENTATION DATE)

Following the submission of the FRTB Foundational and Standardised Approach application in July 2022, as noted in Appendix A, banks may have added or intend to add new desks to their trading operations in light of emergent operational, client and market demands. In this regard, banks may submit an application to the PA for these new trading desks in accordance with the requirements set out in Prudential Communication 1 of 2022²⁰, Appendix A, Section B and specifically address the desk definitions. The application submission to the PA must be accompanied by approval from the bank's highest committee responsible for risk. The minutes of the meeting must be included in the bank's submission. The bank's chief risk officer must sign the final submission to the PA.

Finally, banks must engage with the PA prior to the submission of any such applications in order to ensure alignment. The PA may request additional requirements from banks on a bilateral basis in addition to the core requirements noted above.

²⁰ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2022/Prudential-Communication-1-of-2022-Revised-Market-Risk-Framework-Application-Suite>

APPENDIX E - TRANSMISSION BUILD TO THE UMOJA SYSTEM

In line with all relevant engagements and communication from the PA's Umoja project team and, more generally, the PA, banks must attend to development and testing requirements to ensure readiness towards submission of the FRTB and CVA regulatory returns via the PA's Umoja platform using the relevant submission method.

Table 8 below provides a set of specific Umoja-related publications pertinent to banks' development of transmission capability for the FRTB and CVA implementation and, more generally, for other regulatory regimes and returns. Banks must ensure familiarity with these publications, attend to the requirements as applicable, and remain aware of any relevant future communication.

Table 8: Prudential communication releases related to the Umoja platform

Index	Prudential Communication
1	Prudential Communication 8 of 2024 ²¹
2	Prudential Communication 13 of 2024 ²²

The development related to FRTB and CVA has been encapsulated in Phase 2 of the Umoja project. Prudential Communication 8 of 2024 provides more information related to Phase 2 of the Umoja project. Prudential Communication 13 of 2024 reinforces the details associated with specific application programming interfaces (API) and schemas published on the PA's website. The final FRTB and CVA schemas for machine-to-machine transmission are expected to be released at the start of quarter 1 of 2025 and draw upon the guidance established in Prudential Communication 13 of 2024.

In summary, development, trial runs, and final submission testing activities for FRTB and CVA will be conducted from January 2025 to June 2025. Importantly, any submission testing as part of the Umoja build during this period must not be considered a replacement for the regulatory reporting requirements detailed in Appendix C.

²¹ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2024/Prudential-Communication-8-of-2024-Umoja-Project-phase-2>

²² <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2024/Prudential-Communication-13-of-2024-Regulatory-returns-submission-management-Umoja-Project-Phase-2>