Ref.: 15/8/1/4

SOUTH AFRICAN RESERVE BANK
Prudential Authority

CONSULTATION REPORT

PRUDENTIAL STANDARD: CREDIT VALUATION ADJUSTMENT FRAMEWORK

AUGUST 2024

Contents

1. Purpose

1.1 Section 104 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act) states that, with each regulatory instrument, the maker must publish a consultation report which must include:

(a) a general account of the issues raised in the submissions made during the consultation; and

(b) a response to the issues raised in the submissions.

1.2 The purpose of this document is to set out, as required in terms of section 104 of the FSR Act, a report on the consultation process undertaken in respect of the Prudential Standard: Credit Valuation Adjustment.

2. Summary of the consultation process

2.1 In July 2022, the draft Prudential Standard was published together with a related reporting template for informal consultation in terms of section 101 of the FSR Act. The informal consultation was conducted for a period of three months and ended on 31 October 2022.

2.2 Section 98 of the FSR Act requires the Prudential Authority (Authority) to publish a statement explaining the need for a regulatory instrument (Prudential Standard) and its intended operation as well as a statement of the expected impact (Statement). In this regard, the Authority also utilised the opportunity of the informal consultation process to solicit industry input on the expected impact of the draft prudential standards as well as the reporting requirements. This was done through both qualitative questionnaires as well as quantitative impact studies (QIS) templates, for data as at June 2022.

2.3 The Authority received a total of 65 comments on the draft Prudential Standard and 7 comments on the corresponding reporting template from seven commentators, including Banking Association South Africa (BASA).

2.4 The revised draft Prudential Standard, Statement, draft reporting templates, a notice of invitation for comment and comment template were released for public consultation in terms of section 98 of the FSR Act on 3 November 2023. Comments were due on 20 December 2023. Extensions were provided to financial institutions and associations that requested further time to respond.

2.5 The Authority received a total of 37 comments, with 33 comments on the draft Prudential Standard and 4 comments on the corresponding reporting template from 6 commentators (including BASA).

2.6 A general account of issues raised during the consultation process and the response of the Authority, details of the commentators from the 2023 public consultation as well as the full set of comments are attached hereto as Tables 1, 2 and 3 below.

2.7 A general account of issues raised during the consultation process and the response of the Authority, details of the commentators from the 2022 public consultation as well as the full set out comments are attached hereto as Tables 4, 5 and 6 below.

3. Policy position

3.1 To strengthen the international financial system and reduce the risk of fragmentation, members of the Basel Committee on Banking Supervision (BCBS), including South Africa, have committed to the full, timely and consistent implementation of all relevant internationally agreed frameworks, standards and requirements. As such, it has been agreed that any proposed deviation from or inconsistency with the relevant internationally agreed frameworks, standards and requirements that propose to impose less onerous requirements will be considered only when compelling evidence indicates that the consistent implementation of the relevant internationally agreed standards and requirements will have material unintended consequences for banks, other financial institutions or markets in South Africa that outweigh the potential benefits associated with compliance with such internationally agreed frameworks, standards or requirements.

3.2 The Authority will only insert frequency asked questions (FAQs) from the BCBS Framework into the Prudential Standard where it is of the view that the FAQs provide essential clarification to the principal requirement that is being captured in the Prudential Standard. Where the need arises, FAQs from the BCBS Framework may be captured in the guidance notes or directives issued in terms of the Banks Act, 1990 (Act No. 94 of 1990).

Table 1: Summary of the comments received during the 2023 public consultation

Paragraph	**Summary of comment**	**Response from the PA**
6. Capital requirements for credit valuation adjustment	A request for the PA to consider either removing fair-valued securities financing transactions (SFTs) completely from the scope of covered transactions for Credit Valuation Adjustment (CVA) risk, or else permit such transactions to be excluded from CVA Risk Weighted Assets (RWA) on a presumptive basis. In practice, CVA risk for SFTs may be considered to be non-material given the short-term nature of the majority of SFT trades, the application of haircuts, and adequate credit mitigation through netting and margining agreements.	Currently the Prudential Standard is in line with the Basel framework (MAR 50.5(2)). The Standard gives the Authority the ability to determine a bank's CVA loss exposures arising from securities financing transactions (SFTs) as being material which would require them to be included in CVA capital requirements. It also requires a bank to justify to the Authority why it believes its CVA risk arising from the bank's SFTs are immaterial. The Authority will not deviate from the Basel Framework in this instance.
	The consideration of foreign branches as Globally-Systemically Important Banks (G-SIBs) in South Africa places foreign branches at a disadvantage and introduces inequitable benefits for Domestically – Systemically Important Banks (D-SIBs) and anomalies due to excessive capital requirements	The Authority requires all domestic systemically important banks (D-SIBs), global systemically important banks (G-SIBs) and branches of G-SIBs to apply the standardised

	although the balance sheet of foreign branches are a fraction of the local banking industry. Foreign branches of G-SIBs are at a disadvantage and cannot deploy their injected capital to the best advantage of the branch and/or contributing to the local banking industry. In addition, there is a competitive disadvantage – especially since financing local Public Sector Entities (PSEs) and indirectly contributing to the stability of the financial system. As with all other foreign branches all derivatives are concluded back-to-back with the Group. Foreign branches are at a disadvantage as they do not have a dedicated IRT desk to accommodate the mitigation of risk locally as with D-SIBS.	approach (SA) or the basic approach (BA), as a minimum.
7. Basic Approach for credit valuation adjustment risk	Requests for Frequently Asked Questions (FAQs) to be included in the Prudential Standard Formatting and editing suggestions.	The Authority has included the FAQs and made editing and formatting changes, where appropriate.
8. Standardised approach for credit valuation adjustment risk	We note that in the Standardised Approach – CVA (SA-CVA) context, the PA has inserted an additional prior written permission requirement for the use of proxy credit curves based on the 'fundamentals approach' as described in MAR50.32 (3)(c). We also note that such permission requirement is not established in the Basel Framework standards Request to include a FAQ from the Basel text. Formatting and editing recommendations.	The Authority, based on its risk assessment, requires banks to obtain prior written approval from the Authority for the use of proxy credit curves based on the ‘fundamental approach’. The FAQ was inserted as recommended. Formatting and editing amendments were made, where appropriate.
General comment	The industry notes that in the supervisory CVA risk weights, across the Basic Approach (BA)-CVA and SA-CVA, financials, including government-backed financials, are severely penalised as a sector. While this is aligned with Basel Committee on Banking Supervision (BCBS) text, the result from a local counterparty risk and exposure perspective is this will have an impact on	The Authority will not deviate from the Basel text unless compelling evidence has been produced. To this end, no such evidence was discovered in the Statement.

	the relative capital cost of capital held for trading in the local inter-bank market. We would expect this will be evident in the Impact Statement once released?	
Reporting template	Request for workshops on the reporting template. Clarification on quarterly, monthly and daily reporting	Workshops will be arranged by the Authority. Additional updates about reporting will be communicated along with procedural guidelines that are currently being developed for the revised Market Risk and Credit Valuation Adjustment (CVA) frameworks.

Table 2: List of Commentators from the December 2023 consultation

No.	Commentator	Contact Person
1	Discovery Bank Limited	Renata Vosloo
2	Bidvest Bank Limited	Edmund Wills
3	*Branch of a foreign bank[1]	
4	Standard Chartered Bank – Johannesburg Branch	Charles Nyamuzinga and Paul Syred
5	Albaraka Bank Limited	Ebrahim Hoosen and Mohammed Jadwat
6	BASA	Gary Heylett

[1] Request for confidentiality

Table 3: Full set of comments received during the public consultation conducted in December 2023				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
1. COMMENCEMENT				
			No comments received.	Noted.
2. LEGISLATIVE AUTHORITY				
			No comments received.	Noted.
3. APPLICATION				
			No comments received.	Noted.
4. DEFINITION AND INTERPRETATION				
			No comments received.	Noted.
5. ROLES AND RESPONSIBILITIES				
			No comments received.	Noted.
6. CAPITAL REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENT RISK				
1.	Standard Chartered Bank	6.2(b) SFTs that are fair-valued by a bank for accounting purposes, if the Prudential Authority (Authority) determines that the bank's CVA loss exposures arising from SFTs are material. Where a bank deems the exposures immaterial, the bank must justify its assessment to the satisfaction of the Authority by providing relevant supporting documentation.	Would the PA consider either removing fair-valued SFTs completely from the scope of covered transactions for CVA risk, or else permit such transactions to be excluded from CVA RWA on a presumptive basis? In practice, CVA risk for SFTs may be considered to be non-material given the short-term nature of the majority of SFT trades, the application of haircuts, and adequate credit mitigation through netting and margining agreements. For certain other jurisdictions, regulators have proposed to either completely remove fair-valued SFTs from the covered transaction scope for CVA risk, or to permit their exclusion on a presumptive basis. The US NPRM rules exclude fair-valued SFT	Currently, the Prudential Standard is in line with the Basel Framework (MAR 50.5(2)). The Standard gives the PA the ability to deem SFTs as being material which would require them to be included in CVA capital requirements. It also requires a bank to justify to the Authority why it believes its CVA risk arising from the bank’s SFTs are immaterial. The Authority will not be deviating from the Basel Framework.

			positions, as do the NFRA rules for China. A similar proposal by the HKMA includes a rule whereby SFTs are presumed to be excluded by default unless the regulator specifically instructs a firm to include these.	
2.	* Branch of a foreign bank	Materiality threshold for CVA = SA-CCR and considered as G-SIBS locally.	We are of the opinion that considering foreign branches as G-SIBS in South Africa are at a disadvantage and actually introduces inequitable benefits for D-SIBS and anomalies due to excessive capital requirements although the balance sheet of foreign branches are a fraction of the local banking industry. We are clearly at a disadvantage and cannot deploy our injected capital to the best advantage of the branch and/or contribution to the local banking industry. We are at a competitive disadvantage – especially since financing local PSEs and indirectly contributing to the stability of the financial system. As with all other foreign branches all derivatives are concluded back-to-back with Group. Having said that, we are at a disadvantage as well as we do not have a dedicated IRT desk to accommodate the mitigation of risk locally as with D-SIBS locally.	The PA requires all D-SIBs, G-SIBs and branches of G-SIBs to apply the SA or the BA, as a minimum. The Authority requires a foreign branch of a G-SIB to apply the SA or the BA, as a minimum.
3.	* Branch of a foreign bank	Materiality threshold for use of SA-CCR	This should be considered on the basis of National Discretion equivalent in the jurisdiction of operations. The ZAR1.7 trillion is deemed excessive rather than ZAR100 billion equivalent. Besides this restriction, by default no D-SIBS or G-SIBS will not be allowed use of CVA = SA-CCR, irrespective of the size of operations in the respective jurisdictions. Also, this should be defined on a stand-alone legal entity and Consolidated Supervision basis.	See response to comment 2 above.
4.	* Branch of a foreign bank	Prudential Communication 14 of 2023: CVA Application Suite	Materiality assessment is subjective across banks and not defined by the PA, taking into account the scale of operations of foreign branches vs D-SIBS/G-SIBS. This should be made explicit in the Amended Regulations and guidance / standardisation of materiality assessment across local banks and branches of foreign banks.	See response to comment 2 above.

		7. BASIC APPROACH FOR CREDIT VALUATION ADJUSTMENT RISK		
5.	BASA	7.3(a)	We note the introduction of K*reduced in the South African Standards to capture the discount scaler and believe this could use be confused with *Kreduced* (as referenced in BIS standard) and result in inconsistencies in regulatory reporting.	$K^*_{reduced}$ has been defined in paragraph 7.3(a) and $K_{reduced}$ has been defined in paragraph 7.3(a)(iii). The Authority is of the view that this will not cause confusion.
6.	BASA	7.3(b)(iv)	We note that the formula contains a comment or reference error “OBJ”. We believe that the definition of DFNS is not complete. ➢ We propose wording as follows: “DFNS is equal to 1 for banks using IMM and then based on the formula for banks not using IMM”.	Noted. The objective has been removed. The proposed wording has been added.
7.	BASA	7.4(i)(iv)	In the definition box for IH, under the sigma sign, reference is made to both “h” and “c” however the actual calculation only includes an “i”. ➢ We propose that the value under the sigma to be a single “i” is changed.	Noted and amended accordingly.
8.	BASA	7.4 (K) Table 2	We note inconsistent table formatting.	Noted and amended.
		8. STANDARDISED APPROACH FOR CREDIT VALUATION ADJUSTMENT RISK		
9.	Standard Chartered Bank	[SA-CVA] Permission Requirement for Use of 'Fundamentals Approach' for SA-CVA Proxy Credit Curves (Rule 8.5 (b)(iii)(cc)	We note that in the SA-CVA context, the PA has inserted an additional prior written permission requirement for use of proxy credit curves based on the 'fundamentals approach' as described in MAR50.32 (3)(c). We also note that such permission requirement is not established in the Basel Framework standards.	The Authority has inserted the need for prior written approval. Banks are required to comply with the prescription of the Prudential Standard.
10.	Standard Chartered Bank	[SA-CVA] Prior Written Permission Requirement to Use Smaller Shifts when Calculating Risk Factor Sensitivities (Rule 8.8 (f)(ii))	We recommend that the PA considers adding or use of the Basel FAQ response which explicitly allows firms to use alternative techniques such as Adjoint Algorithmic Differentiation to generate their CVA risks (FAQ response below MAR50.47).	Noted and amended accordingly.
11.	BASA	8.5(b)(cc)	➢ We would request that the Authority remove the explicit counterparty pre-approval requirement to allow a	See response to comment 9 above.

		Permission Requirement for Use of 'Fundamentals Approach' for SA-CVA Proxy Credit Curves	fundamental analysis of credit risk when no credit spread is available. This would align to BIS standard MAR 50.32 3 (c). The proposed standard would impact large part of local project finance related counterparties and introduce an additional level of complexity in maintaining SA-CVA framework. *“When no credit spreads of any of the counterparty’s peers is available due to the counterparty’s specific type (example, project finance, funds), a bank may with the prior written approval of and subject to such conditions as may be specified in writing by the Authority, be allowed to use a more fundamental analysis of credit risk to proxy the spread of an illiquid counterparty. However, where historical PDs are used as part of this assessment, the resulting spread cannot be based on historical PD only – it must relate to credit markets.”*	
12.	BASA	8.8(f)(ii)) Prior written permission requirement to use smaller shifts when calculating risk factor sensitivities.	We recommend that the Authority considers adding or use of the Basel FAQ response which explicitly allows firms to use alternative techniques such as Adjoint Algorithmic Differentiation to generate their CVA risks (MAR50.47).	See response to comment 10 above.
13.	BASA	8.9 (I) (ii)	➢ We would request that the Authority review the associated formatting of m_{cva} in the equation. It appears to be misaligned; the term should be preceding the square root part of the equation.	Noted and amended accordingly.
14.	BASA	8.9(c)(iv)	We propose a correction of “ρkl”, kl subscript.	Noted and amended accordingly.
15.	BASA	8.11(a) [second 8.11]	We note that comments provide in V1 does not look like this amendment was made but could just be numbering that was updated?	The structure of the paragraph 7 was amended so the correct reference is 7.3(c), thus no further amendments to the draft Standard is required.
16.	BASA	8.11(b)	➢ We propose a correction of “ybc”, bs subscript and reference to y and not “γ”.	Noted and amended accordingly.

17.	BASA	8.11(iv) and (v)	We note the inconsistent use of “p” and “ρ”. ➢ We propose an update to the equations to reference rho in naming convention.	Noted and amended accordingly.
18.	BASA	Table 2	We propose that alignment is needed.	Noted. See response to comment 8 above.
19.	BASA	8.12(b) Table 9	We note that it appears if cross-bucket correlation for 15 v 17 should be 0%, SA draft regulation is reflecting “45%” We request that the Authority provide clarification.	Noted. This has now been rectified in the Basel Framework and the Standard has been amended accordingly.
20.	BASA	8.12 Table 9	Cross bucket correlation for bucket 15 (horizontal) and bucket 17 (vertical) is 45% compared to the 0% used by Basel [Raised in first round of comments. We note your comment around waiting for technical revisions and FAQs from BCBS]	See response to comment 19 above.
9. REGULATORY ACTION				
			No comment received	Noted.
10. APPLICATION TO THE PRUDENTIAL AUTHORITY				
			No comment received	Noted.
11. REPORTING REQUIREMENTS				
			No comment received	
GENERAL COMMENTS ON THE PRUDENTIAL STANDARD				
21.	Discovery Bank	Whole standard	No comment, Discovery have very limited exposure to FX with no further comments that need to be raised on this standard	Noted.
22.	Discovery Bank		No further comments on the CVA standard	Noted.
23.	*Branch of a foreign bank.	Confidentiality: Annexures D and E for FRTB and CVA respectively	This is a concern as comments solicited from individual banks were shared with all the industry participants bearing in mind different interpretations of the Amended regulations, and engaging on a bilateral basis with the individual banks that did submit comments which is contrary to communications that individual banks comments will be treated confidentially. Furthermore, it is also a concern that IBA members are not allowed as a collective to lobby against application of local Regulatory requirements based on their scale of operations locally. We would like to request that comments provided by the	The comment template that was provided as part of the consultation process states that comments and the names of the commentators will be published as part of the consultation report. The consultation report is required by the FSR Act in terms of the standard-making process.

			branch be treated confidentially and engaged upon on a bilateral basis, given the previous comment on limitations within IBA circle.	The International Banking Association is, as is any other industry body, welcome to provide comments on regulatory instruments and approach the Authority with any concerns.
24.	Financial Sector Conduct Authority (FSCA)	Whole standard	No comment	Noted.
25.	Albaraka Bank	Whole standard	No comment	Noted.
26.	BASA	*6.2 (b) SFTs that are fair valued by a bank for accounting purposes, if the Prudential Authority (Authority) determines that the bank's CVA loss exposures arising from SFTs are material. Where a bank deems the exposures immaterial, the bank must justify its assessment to the satisfaction of the Authority by providing relevant supporting documentation.*	➢ We would request that the Authority consider either removing fair valued SFTs completely from the scope of covered transactions for CVA risk, or else permit such transactions to be excluded from CVA RWA on a presumptive basis? In practice, CVA risk for SFTs may be non-material given the short-term nature of the majority of SFT trades, the application of haircuts, and adequate credit mitigation through netting and margining agreements. For certain other jurisdictions, regulators have proposed to either completely remove fair-valued SFTs from the covered transaction scope for CVA risk, or to permit their exclusion on a presumptive basis. The US NPRM rules exclude fair-valued SFT positions, as do the NFRA rules for China. A similar proposal by the HKMA includes a rule whereby SFTs are presumed to be excluded by default unless the regulator specifically instructs a firm to include these. The UK PRA, though a December 2023 Supervisory Statement, also limits SFTs that are in-scope to only those where there is significant counterparty deterioration, which would imply excluding by default until counterparty deterioration is observed.	The Authority will not be deviating from the Basel Framework.

			https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2023/ss1213-near-final-december-2023-update.pdf	
27.	BASA	[SA-CVA] Permission Requirement for Use of 'Fundamentals Approach' for SA-CVA Proxy Credit Curves (Rule 8.5 (b)(iii)(cc)	We note that in the SA-CVA context, the Authority has inserted an additional prior written permission requirement for use of proxy credit curves based on the 'fundamentals approach' as described in MAR50.32 (3)(c). ➢ Can the Authority provide clarification as we note that such permission requirement is not established in the Basel Framework standards.	Please see the response to comment 9 above.
28.	BASA	Direct Overlap of FRTB queries with CVA	Where there is a direct overlap with a FRTB query, is the assumption that the outcome will translate directly across to the CVA standard? (e.g., risk factor buckets for "Real Estate" between the Credit Spread Risk and Equity Risk classes) – refer to Section B 9	Any changes to the Market Risk Prudential Standard and CVA Prudential Standard will be completed separately.
29.	BASA	BA-CVA and SA-CVA Risk weights	The industry notes that in the supervisory CVA risk weights, across BA-CVA and SA-CVA, that financials, including	The Authority will remain aligned with the Basel Framework.

			government-backed financials, are severely penalised as a sector. While this is aligned with BCBS text, the result from a local counterparty risk and exposure perspective is this will have an impact on the relative capital cost of capital held for trading in the local inter-bank market. We would expect this will be evident in the Impact Statement once released?	
30.	BASA	SA-CVA model validation application timeline	Reference is made to the industry request for the Authority to consider an extension to the 1 March 2024 deadline to apply for the use of the SA-CVA model. ➢ Banks are primarily focused on meeting the deadline for FRTB and BA-CVA model validations and at the same time ensuring the OTC margin model (Quantitative Portfolio Margin Model) is submitted with most SA banks in scope from 1 Sept 2024. ➢ Given the move in the capitalisation date for FRTB and CVA to 1 July 2025, members request that the PA consider allowing banks to submit their model application for SA-CVA by 1 September 2024 to allow banks sufficient time to complete this development. ➢ Industry interpretation is that prior to 1 March 24, banks need to have finalised all model development, internal audit, and board approval processes for BA-CVA. - To obtain all these sign offs, banks will need a fully implemented and working BA-CVA calculation engine. - Our concern is that some banks, particularly those using external vendor solutions, would need to purchase and migrate to the final “Basel III” version of their solution to produce this BA-CVA calculation. - Given the actual final “Basel III” timelines (reporting 1 January2025), it could force some banks to migrate to a B4 solution much earlier than otherwise required,	For banks that require an extension, a request letter may be sent to the PA detailing the extension required and the timelines they expect to meet. The PA will respond to each bank's request on a bilateral basis.

			solely for the purpose of producing a BA-CVA calculation. This staggered application approach will allow the PA time to review the FRTB and BA-CVA models before reviewing the SA-CVA models.	
31.	BASA	BA-CVA	With reference to discussion held in 2023 and the model validation and independent model validation assurance assessments and associated governance approvals, reference was made to BA-CVA being an outlier when industry do not believe any other jurisdiction's see BA CVA as a "Model". Most foreign branches do not categorise it this way and with the release of the CVA application suite, will result in a full requirement for BA-CVA and SA-CVA. (The use of SA-CCR will most probably be carved out for smaller banks).	Banks have already been able to provide model validation documentation as part of their BA-CVA application.
32.	*Branch of a foreign bank	General	Refer above on Standards.	Noted.
33.	Albaraka Bank	Whole standard	No comment	Noted.
COMMENTS ON THE REPORTING TEMPLATE				
34.	BASA	General	We would request that the Authority consider industry workshops to work through various aspects of the reporting template.	Noted. The Authority will explore the possibility of organising industry workshops for the reporting template. More information regarding this will be communicated through BASA.

35	Deutsche Bank AG Johannesburg Branch	Frequency of reporting new Standards for FRTB and CVA	Not defined – daily, monthly, quarterly. This is necessary to engage with the Group FRTB Programme to accommodate local reporting requirements since we currently have the Daily return – BA325 which is inclusive of Market Risk and CCR, as well as the monthly returns submitted on the 20th business day of each month following the reporting period.	Additional updates pertaining to reporting will be communicated through BASA along with procedural guidelines that are currently being developed for the revised Market Risk and CVA frameworks.
36	BASA	CVA	Cell D33 is missing a formula	Cell D33 is greyed out and therefore should not contain a formula.
37.	BASA	CVA – row 36	➢ Clarification is requested around the meaning of "revised" and "non-modelling approaches"	'Revised' refers to the revised CVA framework to be implemented on 1 July 2025.
GENERAL COMMENTS ON THE REPORTING TEMPLATE AND DETERMINATIONS				
			No comment received	

Table 4: High-level summary of the comments received in the 2022 public consultation

No.	Comment	PA response
1	The materiality threshold to use pure CVA capital methodologies vs the standardised approach for counterparty credit risk (SA-CCR) in determining CVA capital requirements (note that this is a stipulation in the BCBS CVA framework).	The materiality threshold will be finalised in the next version of the Prudential Standard.
2	Confirmation of the interpretation of the requirements of the draft CVA Standard.	Confirmation was provided where it was deemed necessary.
3	Drafting suggestions and corrections.	Amendments were made where the suggestions and corrections were considered appropriate.

4	Corrections of perceived BCBS framework drafting errors.	These will be corrected by the BCBS if considered as errors.

Table 5: Commentators from the 2022 public consultation

No.	Commentator	Contact Person
1	JP Morgan Chase Bank, NA, Johannesburg Branch	Elize Crampton
2	Grindrod Bank	Amrisha Krishna (Regulatory Manager)
3	African Bank	Juneid Khatib
4	Habib Overseas Bank Limited	Neo Motlagomang
5	Albaraka Bank	Mohammed Jadwat
6	Banking Association of South Africa	Gary Haylett
7	Discovery Bank	John Chemaly

Table 6: Full set of comments from the 2022 public consultation

No.	Commentator	Paragraph	Comment	Response
			1. COMMENCEMENT	
			No comments received	Noted.
			2. LEGISLATIVE AUTHORITY	
			No comments received	Noted.
			3. DEFINITIONS AND INTERPRETATION	
			No comments received	Noted.
			4. ROLES AND RESPONSIBILITIES	
			No comments received	Noted.

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
5. APPLICATION				
			No comments received	Noted.
6. CAPITAL REQUIREMENTS FOR CREDIT EVALUATION ADJUSTMENTS				
1	Albaraka Bank	6.5–6.8	As noted in Annexure E we, being a smaller bank, request clarity on the materiality threshold to be applied in terms of 6.5 – 6.8 of the proposed standard on CVA in order for us to determine the applicability thereof.	The materiality threshold for banks will be communicated via a determination. Currently D-SIBs and G-SIBS are required to apply the CVA Prudential Standard. The determination is being published for formal consultation with the revised Prudential Standard and uses an exchange rate of R17.16/EUR for the threshold.
2	BASA	6.5	The materiality threshold is not specified in paragraph 6.8, or anywhere else within the regulation. *“Banks that are below <u>the materiality threshold specified paragraph 6.8</u> below may opt not to calculate its CVA capital requirements using the SA-CVA or BA-CVA and instead choose an alternative treatment.”* ➢ Industry requests that clarification is provided in the Standard ❖ The paragraphs are individually numbered from 6.5 to 6.8 as if they are standalone requirements. However, as they all relate to the materiality threshold, one numbered paragraph, with subparagraphs thereunder should be considered instead to reduce ambiguity	Noted. The paragraphs have been amended accordingly.

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
3	BASA	6.12	Given SA-CCR is mandatory for SA banks, is this paragraph still relevant, i.e., banks can set the maturity adjustment factor to 1 when they calculate CCR capital under IRB? ➢ Industry recommends removing this line item. ➢ The industry will apply the cap of 1 to the maturity adjustment factor to the full-term 1-1.5×b-1×1+M-2.5×b in the formula taken from: https://www.bis.org/bcbs/publ/d424.pdf. We request that the Authority include the FAQ into the Standards to ensure that this is clear. https://www.bis.org/bcbs/qis/biiiimplmonifaq_mar18.pdf	The Authority is of the view that the Prudential Standard must remain as is and that the FAQ will be added to provide clarity.
4	BASA	6.4	Insert the word "are" after "requirements"	Noted and amended accordingly.
5	BASA	6.5	Insert the word "in" before "paragraph"	Notes and amended accordingly.
6	BASA	6.9	Typo: *The Prudential Authority, however, may specify in writing that the option mentioned in paragraph 6.8 above does not apply to a particular bank if the Authority determines that CVA risk resulting from the bank's derivative positions materially contributes to the bank's overall risk.*	Noted and amended accordingly.
7. BASIC APPROACH FOR CREDIT VALUATION ADJUSTMENT RISK				
7	African Bank	7.3(a)	Capital requirement will be easy to calculate on MS Excel. All the inputs required to calculate K (reduded) are readily available. The approach will not require the banks to procure any model, or extra resources.	Noted. Banks can use existing applications/systems to calculate the capital requirements in terms of the applicable formulas.
8	African Bank	7.4(e)	Since BA-CVA full version requires bank to be having CVA hedges in place, it is our interpretation that banks without CVA hedges will default to BA-CVA reduced version.	A bank without hedges may use K reduced or K full and will get the same results. In the K full formula, the K hedges variable will equal to zero. Banks without hedges may therefore choose to use the K reduced formula. See footnote 2 of the Prudential Standard.

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
9	BASA	7.1 Footnote 3	Consider rewording footnote 3 as follows – “The full version recognises counterparty credit spread hedges and is intended for banks that hedge CVA risk.”	Noted and amended accordingly.
10	BASA	7.3 Footnote 4	The footnote is not required as para 7.3 provides this clarity and therefore footnote 4 can be deleted	Noted and amended accordingly.
11	BASA	7.3(a)	The sub-sections under this paragraph are numbered incorrectly. There is a sub-paragraph (a) (i) and (ii), but thereafter there is another (i)-(v) which presumably should be numbered as (b). Par (b) should then be renamed as (c). In addition, it would be clearer if each of the components of the calculation were separated into separate sub-sections. E.g., SCVAc & *p*. Lastly consider rewording “*The capital requirements under CVA risk under the reduced version…” to “The capital requirements for CVA risk under the reduced version*...”	Noted and amended accordingly.
12	BASA	7.3(a)	DS_{BA-CVA} is not defined. In the Basel text it is noted that DS = the discount scalar ➢ Industry recommends that this formula is defined as per the Basel text	Noted and reference to the discount scalar has been included in paragraph 7.3(a).
13	BASA	7.3(a) Formula Box	The result is not defined in the box. Perhaps insert a “K =” at the start of the equation	Noted and amended accordingly.
14	BASA	7.3(a)(i) & 7.3(a)(ii)	Both these references are duplicated i.e., there are two instances of each	Noted and see response to comment 11 above.
15	BASA	7.3(a)(i)	This paragraph states that one should refer to subparagraph (b) below for the calculation. Subparagraph (b) only lists the applicable risk weights. The actual calculation for SCVAc is contained in paragraphs 7.3(a)(ii) subparagraphs (i) to (iv)	Noted and see response to comment 11 above.

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
16	BASA	7.3(a)(ii) [second instance]	Reword “MNS is calculated as per in accordance with the requirements…” to “MNS is calculated in accordance with the requirements…”	Noted and amended accordingly by deleting ‘as per’.
17	BASA	7.3(b)	The reference to “…or where external ratings are not recognised within a jurisdiction…” can be removed as this is not relevant in a South African context. Furthermore, consider rewording “If this cannot be executed…” to “Otherwise…”	The Authority disagrees with these recommendations as the recognition of rating agencies may change. The word ‘otherwise’ has been added.
18	BASA	7.3(b) Table 1	Consider a page break such that the heading and actual table are intact as one complete table	Noted and amended accordingly.
19	BASA	7.4(c)(i)	Consider inserting the word “or” after the semi-colon at the end	Noted and amended accordingly.
20	BASA	7.4(e)	The wording used is confusing and unclear. Industry would propose: The capital requirement for CVA risk under the full version is equal to the result of the formula: DSBA-CVA x Kfull being,. Kfull is calculated as follows, where DSBA-CVA = 0.65, and B = 0.25 is the standard parameter that is used to provide a floor that limits the extent to which hedging can reduce the capital requirements for CVA risk-	Noted and amended accordingly.
21	BASA	7.4(f) Formula Box	The formatting of the Khedged equation needs to be adjusted to ensure it is fully visible. Currently the ΣHMAc part is omitted	Noted and amended accordingly.
22	BASA	7.4(g)(i)	Considering rewording “The first term aggregates the systemic components of CVA risk arising from the banks or counterparties, the single name hedges and the index hedges;” to “The first term aggregates the systemic components of CVA risk arising from the bank’s counterparties, the single name hedges and the index hedges;”	Noted and amended accordingly.
23	BASA	7.4(g)(ii)	Considering rewording “The second term aggregates the idiosyncratic components of CVA risk arising from the banks or counterparties and	Noted and amended accordingly.

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
			the single name hedges;" to "The second term aggregates the idiosyncratic components of CVA risk arising from the bank's counterparties and the single name hedges;"	
24	BASA	7.4(h)(iv)	Industry recommends: Add "DFhSN =" to formula box to remove ambiguity	Noted and amended accordingly.
25	BASA	7.4(i) sub (i) to (iii)	The subscript "h" should rather reflect as "i" i.e., Miind as opposed to Mhind	Noted and amended accordingly.
26	BASA	7.4(i)(iii)	Industry recommends: Add "DFhind =" to formula box to remove ambiguity	Noted and amended accordingly.
27	BASA	7.4(i)(iv)	The second "RWi" in the first line should be changed to "RWi" with "i" in subscript	Noted and amended accordingly.
28	BASA	7.4(j)	Typos – double commas, spacing error after "counterparty c)": ... hedge the CVA risk of counterparty c), ,where , ...	Noted and amended accordingly.
29	BASA	7.4(j) Formula Box	The term "hϵc" should be in subscript under the sigma sign	Noted and amended accordingly.
30	BASA	7.4(k)	Space missing after rhc	Noted and amended accordingly.
31	BASA	Table 2	Formatting is vague – Industry recommends using the Basel formatting of the same Table	Noted and amended accordingly.
8. STANDARDISED APPROACH FOR CREDIT VALUATION ADJUSTMENT				
32	African Bank	8.5(b)	One of the requirements to use Standardised approach is the, banks must have a CVA desk (or a similar dedicated function) responsible for risk management and hedging of CVA. Its is therefore interpreted that banks with no CVA hedges, will not be required to use this approach	Regardless of whether the bank has CVA hedges, it is the bank's choice to decide which approach it wants to adopt. The banks must thereafter meet the requirements for the approach chosen.
33	BASA	8.6(c)	The Standard only require banks to demonstrate compliance to the satisfaction of the Authority for the principles contained in b), however Basel rules require all the 9 principles to be demonstrated.	Noted and amended accordingly.

<table>
<tr><th colspan="5">Table 6: Full set of comments from the 2022 public consultation</th></tr>
<tr><th>No.</th><th>Commentator</th><th>Paragraph</th><th>Comment</th><th>Response</th></tr>
<tr><td></td><td></td><td></td><td>Industry would like to understand why paragraph 8.6(c) refers to just item (b) and not also items (d) to (j)</td><td></td></tr>
<tr><td>34</td><td>BASA</td><td>8.10(c)(ii)</td><td>8.10 Interest rate buckets, risk factors, sensitivities, risk weights and correlations
(a) For interest rate delta and vega risks, buckets must be set per individual currencies.
(b) For interest rate delta and vega risks, cross-bucket correlation γbc is set at 0.5 for all currency pairs.
(c) The interest rate delta risk factors for a bank's reporting currency and for the following currencies USD, EUR, GBP, AUD, CAD, SEK or JPY:
(i) The interest rate delta risk factors are the absolute changes of the inflation rate and of the risk-free yields for the following five tenors: 1 year, 2 years, 5 years, 10 years and 30 years.
(ii) The sensitivities to the abovementioned risk-free yields are measured by changing the risk-free yield for a given tenor for all curves in a given currency by 1 basis point (0.0001 in absolute terms) and dividing the resulting change in the aggregate CVA (or the value of CVA hedges) by 0.0001. The sensitivity to the inflation rate is obtained by changing the inflation rate by 1 basis point (0.0001 in absolute terms) and dividing the resulting change in the aggregate CVA (or the value of CVA hedges) by 0.0001.
(iii) The risk weights RWk are set out in Table 3 below.
(iv) The correlations between pairs of risk factors ρkl are set out in Table 4 below.

Industry requests confirmation that the risk-free yield shifts to “all curves in a given currency” should be a simultaneous shift of every curve per bucket.</td><td>MAR 21.5(1)a – all curves must be shifted.
MAR 21.8(5)a – all curves shifted at the same time.
MAR 21.5 – upward and downward shifts are done at risk factor level and not at bucket level or at curve level.
MAR 21.5(3) – correlation parameter must be used.
There is no situation where the correlation parameter falls away in the Kb formula.</td></tr>
<tr><td>35</td><td>BASA</td><td>FX Risk - CVA</td><td>There seems to be inconsistency in the treatment of FX risk under the Standard on Market Risk and CVA between the proposed Standardised Approach for market risk (FRTB SA) and the proposed Standardised Approach for CVA (SA-CVA).

<table><tr><th></th><th>FRTB-SA</th><th>SA-CVA</th></tr><tr><td>Delta</td><td>FX delta risk factors are the spot rates between the base currency and other currencies. Banks may use a base currency other than the reporting currency, subject to supervisory approval. [MAR21.14 (1)]</td><td>FX delta risk factors are the spot rates between the reporting currency and other currencies, with no option to use a base currency. [MAR50.61 (1)]</td></tr><tr><td>Vega</td><td>FX vega risk factors are the ATM implied volatilities for all currency pairs. [MAR21.14 (2)]</td><td>FX vega risk factors are the ATM implied volatilities for currency pairs where one leg is the reporting currency. [MAR50.62 (1)]</td></tr></table>
Industry requestions confirmation that the same principle may be applied to SA-CVA as to FRTB, namely that a currency other than reporting currency be used as base for FX sensitivities.
This retains the theme of alignment between the two standards and caters to the many volatilities required in simulating CVA, most of which are not available relative to ZAR</td><td>There are very strict requirements in respect of moving positions across the FRTB and the CVA frameworks. The CVA framework is clear that only the reporting currency applies. The FAQ was inserted. For example, if a EUR-reporting bank holds an instrument that references the USD-GBP exchange rate, the bank must measure CVA sensitivity both to the EUR-GBP exchange rate and to the EUR-USD exchange rate (as a footnote).</td></tr>
</table>

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
36	BASA		Industry requests that a basis risk factor be added to the CVA regs on a similar basis to FRTB. This will enable differentiation between instruments with both interest rate and basis sensitivity and those with just interest rate sensitivity. This would be most relevant to cross currency basis trades. This could be an industry interpretive matter and believe that MAR 50.57(2) includes currency basis	The Authority will not be adding another risk factor. CVA is less granular compared to the standardised approach in FRTB.
37	BASA	8.11(b) [second 8.11] Table 9	The cross-bucket correlation for bucket 15 intersecting bucket 17 is shown as 45% when it should be 0%.	Noted. Authority is awaiting publication from the BCBS on technical revisions and FAQs.
38	BASA	8.12(a)(ii) [second 8.12]	The threshold for large or small cap is USD 2 billion. It is assumed the Reporting Bank would translate this to ZAR at each month end using spot FX rates.	The determination is being published for formal consultation with the revised Prudential Standard and uses an exchange rate of R16.34/USD for the threshold.
39	BASA	8.1	Insert the word “in” before “paragraph 10”	Noted and amending accordingly.
40	BASA	8.3–8.5	While paragraphs 8.3 & 8.5 do exist, 8.4 is omitted. Consider renumbering all paragraphs from 8.4 to 8.15 to ensure they run sequentially	Noted and amending accordingly.
41	BASA	8.6(e)	Delete the word “or” in the second row	Noted and amending accordingly.
42	BASA	8.6(l)	Contains the phrase “…and a bank must continually demonstrate including to the satisfaction of the Prudential Authority…” The Basel text does not include the word “continually” and therefore clarity is sought around the frequency so required, and clarity is sought around the phrase “including to the satisfaction of the Prudential Authority” – i.e., are any other parties envisaged here apart from the PA?	Noted. The Standard has been amended to remove ‘including’ (i.e. limiting the demonstration to the Authority and not other regulators). The banks must be able to demonstrate to the Authority that it complies with the requirements.
43	BASA	8.6(n)(v)	The phrase “A bank or controlling must document…” is missing a noun after “controlling”	Noted and ‘and controlling’ has been deleted.

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
44	BASA	8.6(n)(vii)	Delete the word “or” in the second row	Noted and amended accordingly.
45	BASA	8.9(f)(ii), 8.9(j), 8.9(l)(i) & 8.9(l)(ii):	References to “paragraph 8.10 below” should be amended to “paragraphs 8.10 – 8.15 below” as 8.10 only covers interest rate sensitivities	Noted and amended accordingly.
46	BASA	8.9(l)(iii)	Space missing after “by” in: ...and capped by...	Noted and amended accordingly.
47	BASA	8.9(j)	The phrase in parenthesis is missing the closing bracket	Noted and amended accordingly.
48	BASA	8.9(l)(ii) Formula Box	i) The result is not defined in the box. Perhaps insert a “K =” at the start of the equation for consistency ii) The formula is not as per the final Basel text – the reference to “WSk2” should change to “Kb2” and the inclusion of Kb in the second part of the formula is not required.	Noted and amended accordingly.
49	BASA	8.9(k)	The formula should not have a “+”. This was removed in the Basel text. The footnote explaining that the WShdg is positive is missing and as a result the formula may be applied incorrectly.	Noted and amended accordingly.
50	BASA	8.10(c)(iii)	“RWk” should change to “RWk” with “k” in subscript	Noted and amended accordingly.
51	BASA	8.11	8.11 is duplicated. The first instance refers to the FX asset class and the second, which follows 8.12, refers to reference credit spreads. The second 8.11 should be 8.13.	Noted and amended accordingly.
52	BASA	8.11(a) [second 8.11]	The reference to “7.3(c)” should be “7.3(b)”	Noted and amended accordingly.
53	BASA	8.11(c)(i)	Consider replacing with the wording from paragraph 50.61(1) of the final Basel text	Noted and amended accordingly.
54	BASA	8.12	8.12 is duplicated. The first instance refers to the counterparty credit spread asset class and the second refers to the equity asset class. The second 8.12 should be 8.14.	Noted and amended accordingly.

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
55	BASA	8.12(c)(iv)	i) The correct reference is most likely 8.12(c)(iii) ii) Consider rewording "The risk weights RWk are set as in Table 7 below…" to "The risk weights RWk as set out in Table 7 below…"	Noted and amended accordingly.
56	BASA	8.12(c)(iv)(aa) & 8.12(c)(v)(aa)	The reference to "p" should be "Ptenor"	Noted and amended accordingly
57	BASA	8.12(c)(iv)(bb) & 8.12(c)(v)(bb)	The reference to "p" should be "Pname"	Noted and amended accordingly
58	BASA	8.12(c)(iv)(cc) & 8.12(c)(v)(cc)	The reference to "p" should be "Pquality"	Noted and amended accordingly
59	BASA	8.12 (a)(iv) [second 8.12]	The text refers to table "above" when it should refer to the table "below"	Noted and amended accordingly
60	BASA	8.13	Given the duplicate references, the correct reference for the Commodity asset class is 8.15	Amended accordingly.
9. REGULATORY ACTION				
			No comments received	Noted
10. REPORTING REQUIREMENTS				
			No comments received	Noted.
11. TRANSITIONAL ARRANGEMENTS				
			No comments received	Noted.

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
			12. GENERAL COMMENTS ON PRUDENTIAL STANDARD	
61	JP Morgan	Credit valuation adjustment framework BA-CVA approach	No comment	Noted.
62	Grindrod	Whole Standard	No comment	Noted.
63	African Bank		The standard does not provide the minimum criteria for banks to fall in the scope for the application of the CVA framework to compute CVA capital requirements. It leaves banks to interpret that they fall in the scope as long as they carry some CVA risk	Noted. The determination setting out the thresholds will be published with the revised Prudential Standard for consultation.
64	Habib Overseas Bank	Whole Standard	No further comment	Noted.
65	BASA		BASA and its members have understood from the Prudential Authority (the Authority) that this first draft of the prudential standard (the Standard) is intended to be "Basel Pure" unless there were intended differences. Industry notes that some of the larger paragraphs in the Basel text have been broken down in the Standard. Conversely, other points have been consolidated, where they were separate on the Basel text. We also noted that the Basel text FAQs, have in some instances been included as a regulatory article and in other cases added as a footnote or omitted. During the review process many differences have been noted and within the context many of these appeared to not have been intended and may be because of the movements/changes described above. Members have highlighted these differences and omissions as far as possible, especially where they may have a material impact. We wish to note that the members cannot guarantee that all accidental differences and omissions have been picked up.	Noted.

Table 6: Full set of comments from the 2022 public consultation				
No.	**Commentator**	**Paragraph**	**Comment**	**Response**
			BASA and its members have submitted our comments in order of importance with. - Section B1 focusing on key comments for FRTB that will have a material impact - Section B2, key comments for CVA that will have a material impact. - Section B3, Reporting. - Section B4, General and industry technical interpretations - Section B5.1, FRTB formatting, typo's, immaterial differences, and other grammatical errors - Section B5.2, CVA formatting, typo's, immaterial differences, and other grammatical errors Basel (32.23): "Movements in all risk factors contained in the trading desk's risk management model should be included, even if the forecasting component…" - Industry note MAR 32.23 does not seem to appear in the prudential standards Industry would request that the Authority ensure sufficient time is allocated for any aspects of the regulation that will require system changes Industry would request that sufficient time is provided after the issuance of v2 of the Standard, to allow for an independent review to be completed Industry would request that the timing on v2 of the Standard, be included into the roadmap and that the roadmap continues to be an integral instrument in the go-live process to ensure all "objectives" can be met	