



Prudential Notice 1 of 2025

FINANCIAL SECTOR REGULATION ACT, 2017 (ACT NO. 9 OF 2017)

BANKS ACT, 1990 (ACT NO. 94 of 1990)

DETERMINATION OF ADDITIONAL ELIGIBILITY CRITERIA FOR THE APPLICATION OF THE SIMPLIFIED STANDARDISED APPROACH IN TERMS OF THE PRUDENTIAL STANDARD ON MARKET RISK

The Prudential Authority (PA) published the Prudential Standard: Market Risk (Prudential Standard) on 30 June 2025 that comes into effect on 1 July 2025. The Prudential Standard sets out the principles and requirements for market risk for banks. Banks must comply with the requirements as part of sound risk management practices and processes. In addition, the Prudential Standard sets out the different models within which a bank may manage market risk being the Simplified Standardised Approach (SSA), the Standardised Approach (SA) or the Internal Models Approach (IMA).

In terms of paragraph 6.2 of the Prudential Standard, a bank must apply to the PA to be permitted to use the SSA. To determine the appropriateness of the SSA for the calculation of a bank's minimum required amount of capital and reserve funds for market risk, the PA will consider the following indicative criteria as outlined in paragraph 6.3 of the Prudential Standard:

- (a) The bank must not be a global systemically important bank (G-SIB);
- (b) The bank must not use the IMA for any of its trading desks; and
- (c) The bank must not hold any correlation trading positions.

Paragraph 6.4 of the Prudential Standard empowers the PA to determine additional criteria for the use of the SSA. In terms of the empowering provisions under paragraph 6.4 of the Prudential Standard, the PA determines additional eligibility criteria through the framework set out in the attached Schedule.

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Chief Executive Officer

Date: 2025-06-30

SCHEDULE

Additional eligibility criteria for the use of the Simplified Standardised Approach as provided for in the Prudential Standard on Market Risk

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1. Background and purpose

As part of the process towards the adoption of the Basel Committee on Banking Supervision's (BCBS) revised market risk framework into the domestic regulatory framework and its implementation on 1 July 2025, the PA has engaged with banks to identify any potential impediments and to provide policy and operational certainty. One of the areas that have been highlighted by the industry pertains to the eligibility criteria for the use of the simplified alternative to the standardised approach (SSA) of the revised market risk framework.

Against this background, the purpose of this framework is to outline the additional eligibility criteria for the use of the SSA, as set out under the BCBS's framework for the minimum capital requirements for market risk. These eligibility criteria apply to all entities within a banking group whose business activities generate market risk exposure. The remainder of this document will, however, make reference to banks for simplicity and consistency in interpretation.

2. Discussion

2.1. The Basel framework

- 2.1.1. In January 2019, the BCBS issued the revised minimum capital requirements for market risk¹, commonly referred to as the Fundamental Review of the Trading Book (FRTB). The FRTB framework, addresses the structural shortcomings of the market risk framework used in terms of the Basel 2 and 2.5 frameworks relating to the existing standardised approach (SA) and internal models approach (IMA) respectively.

¹ https://www.bis.org/basel_framework/standard/MAR.htm

- 2.1.2. Under the revised market risk framework, in determining regulatory capital requirements for market risk, a bank may choose between two broad methodologies, being the SA and IMA. However, due to the complexity of these two methodologies and the considerable implementation challenges, particularly for smaller banks that may not have sufficient infrastructure for the implementation of the SA and IMA, and to also accommodate banks with a low concentration of trading book activity, the BCBS proposed a simplified alternative. Under the revised market risk framework, banks that maintain smaller and/or simpler trading books may apply the SSA for the calculation of the minimum required amount of capital and reserve funds for market risk upon approval by their respective supervisors.
- 2.1.3. Supervisors may mandate banks with relatively complex or sizeable risks in particular risk classes to apply the SA, instead of the SSA, even if those banks meet the overarching and indicative eligibility criteria determined by the supervisor.
- 2.1.4. The BCBS's revised minimum capital requirements for market risk provides indicative criteria that may be considered by supervisors in determining criteria that need to be met by banks in their respective jurisdictions in order to qualify to use the SSA for the capitalisation of their respective exposures to market risk. According to the BCBS framework, supervisors may consider the following indicative criteria:
- The bank should not be a global systemically important bank (G-SIB);
 - The bank should not use the IMA for any of its trading desks; and
 - The bank should not hold any correlation trading positions.
- 2.1.5. The PA decided to also include the proposed minimum criteria issued by the BCBS for the use of the SSA for capitalisation of market risk by qualifying banks.
- 2.1.6. As part of finalising the minimum criteria, the PA engaged banks to gather the necessary qualitative and quantitative information.
- 2.1.7. The information gathered from the banks informed elements of the quantitative aspects of the eligibility criteria by considering the size and complexity of banks and their respective products traded.
- 2.1.8. The PA also conducted bilateral engagements with banks interested in applying the SSA with respect to the overall eligibility criteria. These engagements were designed to provide banks with an indicative outcome with respect to the qualification for the use of the SSA in their respective operating concerns, for which the SSA was deemed appropriate.
- 2.2. Quantitative impact study and findings
- 2.2.1. Banks that provided both quantitative and qualitative information to the PA and that also indicated an intention to apply for the use of the SSA can be classified under the following three categories:

- local banking groups with foreign subsidiaries or branches for which they want to apply the SSA;
- foreign banking groups with a local subsidiary for which they want to apply the SSA;
- local banks that intend to apply the SSA to local trading operations.

2.2.2 Some of the key findings with respect to the banks that indicated an intention to apply for the use of the SSA are as follows:

- none of the entities are G-SIBs;
- the entities are currently not using the IMA for any of their trading desks and operations, and there is also no intention to use the IMA under the FRTB regime;
- the entities do not hold any correlation trading positions for any of their trading desks;
- the trading of complex² products is generally limited and largely on a back-to-back basis, which limited their exposure to market risk.

2.2.3 The market risk risk-weighted assets (MR RWA) was used to measure the size of market risk exposure for banks that intend to use the SSA. The MR RWA will also be used in the quantitative eligibility criteria for the use of the SSA.

2.3. Considerations for PA's specified eligibility criteria

2.3.1 A key determinant of the complexity of a bank's trading operation relates to the nature and scope of the products traded and associated risks incurred, together with relative levels of interconnectedness with other key market players, which may be assessed through various supervisory measures.

2.3.2 Under the BCBS indicative criteria, any bank that intends to use the SSA should not be a G-SIB. Further to these criteria, the PA has decided that no South African domestic systemically important banks (D-SIBs) will be eligible to use the SSA, due to their size and complexity of operations within the South African market.

2.3.3 The majority of the banks that intend to apply for the use of the SSA operate in relatively unsophisticated markets outside of South Africa, which are still under Basel 1 and 2 frameworks, or themselves are considered to have relatively non-complex trading operations in South Africa. These foreign markets also have a limited scope of financial instruments available to trade and are generally limited to non-complex instruments (for example, delta 1 type products). The identified banks that do operate in sophisticated financial markets do not necessarily trade in complex products and have relatively small market risk exposures.

2.3.4 Currently, most banks that intend to apply to use the SSA for a specific operation in South Africa or elsewhere are using the Basel 2/2.5 SA for the

² To be considered against paragraph 2.3.1

calculation of the minimum required amount of capital and reserve funds for market risk. However, under the FRTB regime, the revised SA may not be appropriate nor fit for purpose for such entities in light of the implementation challenges relative to the markets within which these banks operate and the nature and complexity of their respective trading book activities.

- 2.3.5 Whilst banks that intend to apply the SSA may meet the minimum criteria proposed by the BCBS, as set out in section 3 below, the application of the PA's eligibility criteria may lead to a different outcome.

2.4. Quantitative aspects of the criteria

- 2.4.1 In addition to the qualitative eligibility criteria discussed below, the PA will apply a quantitative methodology that will be used alongside the qualitative criteria to determine banks' eligibility for the use of the SSA.

- 2.4.2 The MR RWA was considered a suitable metric to assess eligibility for the use of the SSA from a quantitative basis, on the assumption that the size of the bank's MR RWA is indicative of the materiality, but not necessarily complexity, of the bank's trading book activity.

3. PA's eligibility criteria for the use of SSA

3.1 Qualitative eligibility criteria

- 3.1.1 The PA has decided to apply the following qualitative eligibility criteria for the use of the SSA for the calculation of banks' minimum required amount of capital and reserve funds for market risk:

- (i) The bank should not be a G-SIB, a subsidiary or a branch of a G-SIB operating in South Africa;
- (ii) The bank should not be a South-African D-SIB, with sizable exposure to market risk, operating in South Africa, as identified by the PA's supervisory processes;
- (iii) The bank should not use the IMA or the standardised approach for any of its trading desks for the specific operation for which they intend to use the SSA; and
- (iv) The bank should not hold any correlation trading positions within the specific operation for which they intend to use the SSA.

3.2 Quantitative eligibility criteria

- 3.2.1 In addition to the qualitative criteria indicated above, quantitative criteria will be used to identify banks that are eligible for the use of the SSA. These quantitative criteria will be determined and specified during the PA's assessment of banks' applications for the use of the SSA.

3.3. SSA eligibility criteria conditions

3.3.1 In addition to the above criteria, qualifying banks must adhere to the following:

- (i) The use of the SSA will be subject to the prior written approval of the PA. All banks that intend to apply to use the SSA must submit a formal application to the PA, in accordance with the application processes and guidelines that will be stipulated by the PA;
- (ii) The bank must apply the SSA in the computation of its consolidated banking group's capital requirements for the specific operations that receive approval from the PA for the use of the SSA;
- (iii) The qualifying criteria will be applied at a legal entity level within the consolidated banking group but may also take other factors into account, as deemed relevant in accordance with normal supervisory processes and protocols;
- (iv) The application and use of the SSA for a foreign subsidiary or branch of a locally licensed South African bank is excluded from item (ii) above, except where the PA explicitly identified and approved that the said foreign subsidiary or branch is eligible for the use of the SSA. Furthermore, should a host regulator of a foreign subsidiary or branch of a locally licensed South African bank require the adoption of the FRTB SA, the specific bank must inform and align its regulatory reporting requirements to the said host regulator for its consolidated banking group's regulatory reporting requirements to the PA;
- (v) Banks will be required to continuously assess their eligibility for the use of SSA. A bank is required to notify the PA if, and when its trading book exposures exceed the quantitative thresholds provided to them by the PA as part of their application process, which would disqualify them from the use of the SSA. The PA will introduce and conduct an annual review post the implementation of FRTB in July 2025 regarding eligibility and communicate these results accordingly to banks. Any bank that is deemed to be ineligible for the use of the SSA will be required to adopt the SA within an appropriate period to be determined and communicated on a bilateral basis by the PA. These ongoing requirements will be included in line with the initial application and procedural requirements noted in item (i) above.