Ref.: 15/8/1/4

SOUTH AFRICAN RESERVE BANK
Prudential Authority

CONSULTATION REPORT

PRUDENTIAL STANDARD: MARKET RISK

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: Market Risk (draft Prudential Standard).

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 Through the informal consultation, the Authorities received a total of 101 comments on the draft Prudential Standard and 25 comments were received on the corresponding reporting template from 6 commentators (including the Banking Association South Africa (BASA)).

2.4 The revised draft Prudential Standard, Statement, reporting template, 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 77 comments, with 72 comments on the draft Prudential Standard and 6 comments on the corresponding reporting template from 3 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 comments, 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 of 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 PA 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 – Market risk

Paragraph	Summary of comment	Response from the PA
All paragraphs	Formatting and drafting suggestions	Where deemed appropriate, formatting and drafting suggestions were incorporated.
6. Methodologies for calculating market risk capital requirements	The approach of the PA is not to permit branches of Globally Systemically Important Banks (G-SIBs) to use the Simplified Standardised Approach (SSA) to calculate capital requirements. There is need for quantitative analysis before this can be decided.	The eligibility criteria for the use of the simplified standardised approach (SSA) were published for public consultation and finalised for the draft Prudential Standard. Branches of global systemically important banks (G-SIBs) will not qualify for the use of the SSA. The quantitative criteria will not be considered as the branches of G-SIBs do not meet the qualitative criteria.
7. Matters related to the composition and management of trading desks	Clarification of the treatment of net open position (NOP) in the Standardised Approach (SA) as well as the treatment of investment in foreign subsidiaries in the SSA and SA.	If a bank holds or takes positions in foreign currencies, and it is capitalising market risk using the SSA, then the net open position (NOP) calculation needs to be performed. But, if it uses the standardised approach (SA), then foreign exchange (FX) sensitivity, for instance,

		will need to be calculated for the same position. It is not necessary to define NOP beyond the SSA. The draft Prudential Standard has been amended to exclude investments in foreign subsidiaries from the SSA or the SA FX sensitivity calculation.
8. Boundary between the banking book and the trading book	• Clarification on the definition of eligible protection provider. • The classification of 'hedge funds' in the banking book with a request that hedge funds look through should be permitted in the trading book.	• Clarification provided. • The draft Prudential Standard refers to hedge funds without jurisdictional restriction. The regulatory requirements to participate in a hedge fund and the regulatory restrictions on hedge funds vary by jurisdiction. The PA will align with the Basel Framework related to Market Risk (Basel Framework) for the treatment of hedge funds.
9. Simplified standardised approach	• Clarification on the treatment of General Interest Rate Risk (GIRR) internal risk transfer (IRT) about the application of qualitative and quantitative trading desk requirements. • Identification of a perceived error in the classification of time bands	• Clarification was provided in that a notional trading desk does not have to meet the qualitative criteria as described in paragraphs 7.1 to 7.10 of the draft Prudential Standard. If the notional desk is capitalised under the internal models approach (IMA), then the quantitative trading desk requirements (i.e. profit and loss attribution test and backtesting) set out in MAR32 (paragraph 11 of the Prudential Standard) apply. • The narrative in the Basel Framework (MAR40.28) refers to the four- to five-

		years' time band falling under zone 3. The resultant table (Table 4 of MAR 40.28) reflects the 4- to 5-years' time band in zone 2. Table 4 has been amended to reflect the wording of the Basel Framework in MAR 40.28.
10. Standardised approach	• Decomposing indices involves revaluing each constituent name in the index individually. For the Default Risk Capital (DRC) calculation, each constituent is treated as if it experiences a 100% jump to default and the market value is recalculated. Given that (i) certain indices represent constituents from developed countries (investment grade names) and (ii) SA banks will have almost zero exposure to these constituent companies (the DRC cannot be added to existing exposures) will the PA consider certain criteria/options for non-decomposition.	• This request would constitute a deviation from the Basel Framework. The PA will not deviate from the Basel Framework
	• When assigning risk weights to Net jump-to-default (JTD) to calculate the default risk charge, the credit quality of the issuer is considered. However, where an external or internal issuer level rating is unavailable, could assignments be made based on an issuance-specific basis aligned to a long-term issuance.	• The draft Prudential Standard specifies that, if there is no external rating, the bank may use its internal rating after approval from the PA. If the bank does not have permission to use its internal rating then exposure will be assigned to the unrated bucket. The draft Prudential Standard has been amended to make this clearer.

	• About Residual Risk Add On, it was recommended that the Authority should not explicitly state a list of specific typologies but rather define the behaviour of the instrument. • Vega risk weights are set 100%, except for equity, large cap or indices set at 77.78%. A 100% risk weight results in 100 % of Vega multiplied by implied volatility is the input into the aggregation calculation for SBM. Historical scenarios for volatility through the Global Financial Crisis (GFC) stress period are much lower than the FRTB risk weight of 100%. For example, the largest shift is USD/ZAR volatility which is around 40%. Delta and curvature risk weights differ per asset class based on the bucket that the risk factor is assigned. Buckets that are higher risk receivers receive higher risk weights whereas as for Vega a flat risk weight of 100% is applied. It is requested that the Authority consider lower Vega risk weights that are more aligned to stresses seen in the GFC stress period and that the PA consider Vega risk weights that are not fixed to 100% but rather more aligned to the variation seen in delta risk weights but i.e a per bucket risk weight • About instruments subject to the Residual Risk Add-on, the unmatched	• The requirements were drafted by the Basel Framework and the PA will not deviate from what is included in the framework. • This request would constitute a deviation from the Basel Framework. The PA will not deviate from the Basel Framework. • This request constitutes a deviation from the Basel Framework. If

	notional will always be fully capitalised and economic movements on the matched positions will always be fully offset. The request is to recognize back-to-back positions, not back-to-back trades. • Seeking clarity on the PA's view that double benefits could be derived when an equity repo rate is replaced with GIRR risk factor.	necessary, further guidance may be provided on this matter. • If an equity repo rate is replaced with a general interest rate risk (GIRR) risk factor, two things can occur: 1. The capital requirement for equity delta could decrease due to the lack of an equity repo rate delta (MAR 21.78). 2. There is a possibility the GIRR capital requirement will decrease due to the new GIRR being generated by this equity position being in the opposite direction of the rest of the GIRR in the book. This would allow for an offset in risk that results in a reduction of GIRR delta when aggregating (MAR 21.45). The above two scenarios happening at the same time would result in a double benefit for a bank − both a reduction in equity delta and a reduction in GIRR delta.
11. Internal Model Approach	• A request for the PA to provide additional guidance on the preferred way that the Bank's should treat a basis risk position, where once off the risk factors fail the RFET and the other offsetting risk driver passes the Risk Factor Eligibility Test (RFET) (for	• Irrespective of the basis position, if a risk factor fails the risk factor eligibility test (RFET), it cannot be incorporated into the expected shortfall (ES) model. Banks retain the prerogative to determine the appropriate treatment of a basis risk position, taking into

	example bond-swap basis). Could a Bank choose to exclude both risk factors from the Expected Shortfall (ES) and include them in the calculation of Stressed Expected Shortfall (SES)? Could a Bank choose to default the entire position or desk to the Standardised Approach? • About backtesting at a trading desk level, the PA is requested to provide clarity on whether the two-stage approval process implies that banks may run a mixed MR capital model approach (i.e. IMA for ES, SES and then SA DRC) or is the two-stage approval a pre-requisite to run the IMA model in its entirety? • Request for the last column in the table in paragraph 11.11.3 should be reduced by the base multiplier of 1.5 such that there is a consistency between paragraphs 11.11.3, 11.22.1 (b) and 11.22.2.	consideration that risk factors that fail the RFET cannot be incorporated into the ES model. • The two-stage approval a pre-requisite to run the IMA model in its entirety. The multiplier referenced in the table is the multiplier after the backtesting add-on has been included, with 1.5 being the lowest (backtesting add-on equal to 0) and 2 being the highest (backtesting add-on equal to 0.5) as referenced in 11.22.2(b). The multiplier in paragraph 11.11.3 does not include the qualitative add-on. Instead of changing the numbers in paragraph 11.11.3, the heading of the column has been amended to make the above clear.
General comments on the draft Prudential Standard	Comments on including Frequently Asked Questions (FAQs) in the draft Prudential Standard	Where it deemed it necessary to create clarity to the requirement, the PA has included FAQs from the Basel Framework. If necessary, depending on the needs highlighted by the

		banking industry, the PA will issue guidance notes dealing with the FAQs.
Comments on the reporting template	• Clarity on the frequency of reporting new • Request for focused workshops on the reporting template • Clarification on how the template should be completed.	• The requirement for market risk regulatory capital reporting is at a minimum basis every month. However, the PA maintains the right to request market risk regulatory capital requirement reports as and when needed, such as daily. • This request has been noted and will be conducted as part of the testing of the reporting template. • Clarification was provided.

Table 2: List of commentators from the 2023 public consultation

No	Name	Contact Person
1	Standard Chartered Bank – Johannesburg Branch	Charles Nyamuzinga and Paul Syred
2	* A branch of a foreign bank[1]	
3	BASA	Gary Heylett

Table 3: Full set of comments received during the public consultation conducted in December 2023

No.	Commentator	Paragraph	Comment	Response
1. COMMENCEMENT				

[1] Request for confidentiality

			No comment 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.
5. APPLICATIONS				
			No comments received	Noted.
6. METHODOLOGIES FOR CALCULATING MARKET RISK CAPITAL REQUIREMENTS				
1.	* A branch of a foreign bank	FRTB SA vs SSA	As a foreign branch operating in South Africa we were declined the use of SSA for market risk, similarly on the basis above and to our disadvantage requiring a higher capital requirement. Cognisance should be taken that we operate independently to service MNC clients locally and local PSEs. No consideration was taken into account ito the quantitative analysis that the PA alluded to in their Draft Determination of the Application for the Simplified Standardised Approach point 3.2 of which and quoted “These quantitative criteria will be derived and specified during the PA’s assessment of banks’ applications for the use of the SSA” we have not as yet received any further communication in this regard. In our response to the PA declining the use of SSA we alluded to the fact that no quantitative analysis was performed in considering the SSA application and only based on the	The eligibility criteria for the use of the SSA was published for public consultation and finalised for the purposes of the Prudential Standard. Branches of G-SIBs will not qualify for the use of the SSA. The quantitative criteria will not be considered as the branches of G-SIBs do not meet the qualitative criteria.

			qualitative criteria to the detriment of the branch into punitive capital requirements for adoption of the SA standard instead.	
7. MATTERS RELATED TO COMPOSITION AND MANAGEMENT OF TRADING DESKS				
2.	BASA	7.5	The full stop at the end of the article 7.5 is incorrectly formatted as a superscript.	Noted. The draft Prudential Standard has been amended accordingly.
3.	BASA	7.5	Footnote 8 is phrased as a question and would suggest removing the question mark.	Noted. The drafted Prudential Standard has been amended accordingly.
4.	BASA	7.5	We believe Footnote 8 still needs to be updated.	Note. The draft Prudential Standard has been amended accordingly.
5.	BASA	7.10 (4)	We would request further clarification on the Authorities comments, as industry believe the response does not fully address the concern. The calculation of FX NOP is not specific to SSA issue and impacts the calculation of FX sensitivity (10.7.33-10.7.36 and 10.7.50). Whilst the industry assume that the FX sensitivity used in the standardised approach calculation should be based on the same position as laid out in 9.13.3 this is not currently clear. Secondly, it is not clear whether investments in foreign subsidiaries should be excluded from the SSA, or standardised approach FX sensitivity calculation as permitted in the Banks Act of 1990, 28(7)(d)(ii)(ix) and (x)) If it the PA's intention to include investments in non-consolidated subsidiaries and long-term participations denominated in foreign currency as this it will result in a material increase in the capital requirement for banks?	If a bank holds or takes positions in foreign currencies, and it is capitalising market risk using the SSA, then the NOP calculation needs to be performed. But if it uses the SA, then FX sensitivity, for instance, will need to be calculated for the same position. It is not necessary to define NOP beyond the SSA. The Prudential Standard has been amended to exclude investments in foreign subsidiaries from the SSA or standardised approach FX sensitivity calculation. Refer to paragraph 5.12 and 5.13 of the draft Prudential Standard.
8. BOUNDARY BETWEEN THE BANKING BOOK AND THE TRADING BOOK				

6.	BASA	8.7.1(B)(I)	Regulation 23(12) (e) (ii) does not provide a definition of an eligible protection provider.	Regulation 23(9)(d)(iii) defines an eligible protection provider.
7.	BASA	8 RBC25.8 Hedge Fund Classification	Industry is of the view that regulated hedge funds with look-through, should permitted in the trading book. These institutions, whilst called a hedge fund, are not characterised by excess risk taking as they have strict regulatory obligations to comply with in terms of the Collective Investment Schemes Control Act (CISCA).	The draft Prudential Standard refers to hedge funds without jurisdictional restriction. The regulatory requirements to participate in a hedge fund and the regulatory restrictions on hedge funds vary by jurisdiction. The PA will align to the Basel treatment of hedge funds.
8.	BASA	8.2	We propose that this should be 8.1.3 since it is a sub-pulled point on 8.1.	Noted. The draft Prudential Standard has been amended accordingly.
9.	BASA	8.3.5	We propose removing the hyphen (“-”) after footnote “12” reference	Noted and amended accordingly.
9. SIMPLIFIED STANDARDISED APPROACH				
10.	BASA	9 RBC25.25(2) IRT	FAQ1 of RBC 25.25 states that “Similar to the notional trading desk treatment set out in MAR12.6 for foreign exchange or commodities held in the banking book, GIRR IRTs may be allocated to a trading desk that need not have traders or trading accounts assigned to it. For a GIRR IRT trading desk, only the quantitative trading desk requirements (i.e. profit and loss attribution test and back testing) set out in MAR32 apply.” The Prudential requirements states that notional trading desks need not meet the requirements of paragraphs 7.1 to 7.10?	A notional trading desk does not have to meet the qualitative criteria as described in paragraph 7.1 to 7.10. If the notional desk is capitalised under the IMA, then the quantitative trading desk requirements (i.e. profit and loss attribution test and back testing) set out in MAR32 (paragraph 11 of the draft Prudential Standard) apply.
11.	BASA	9.10.10 (a)	From the Jan24 BASA discussion, the Authority noted specific article might be adjusted based on updated technical standards being considered and hence the	The narrative in the Basel Framework (MAR40.28) refers to the 4- to 5-years’ time band falling under zone 3. The resultant table (Table 4 of MAR 40.28) reflects the 4- to 5-

			Authority is not expecting other material changes in the revised Standard. Clarification and engagement are needed on the scope and the impact of the publication expected from the BCBS.	years' time band in zone 2. Table 4 has been amended to reflect the wording of the Basel Framework in MAR 40.28.
12.	BASA	9.10.7(2) & (d)	➢ We propose that *article* should be re-worded, to include reference to article that should be used for the calculation of horizontal disallowance. It's not clear if point (d) should be merged with point (c) or linked to article 9.10.10. "In calculating the capital requirement under the maturity method- (a) positions allocated in each time band are multiplied by their respective risk factors, set in Table 2 below; 6(b) weighted longs and shorts positions are offset in each time band, resulting in a single short or long position for each band. (c) the vertical disallowance is calculated for each time band- 10 percent of the smaller absolute value of the offsetting positions, long or short; (d) the horizontal disallowance is calculated. "	Noted. Sub-paragraph (d) of paragraph 9.10.7 has been removed.
13.	BASA	9.11.28	Footnote 20 referenced by article is not shown on the same page.	Noted. The draft Prudential Standard has been amended accordingly.
14.	BASA	9.11.28	We believe the Footnote is still allocated to the wrong page.	Noted. The draft Prudential Standard has been amended accordingly.
15.	BASA	9.11.01 to 9.11.23 /	We note that the SSA - Interest rate derivative articles 9.11.01 to 9.11.23 are duplicated with 9.11.24 to 9.11.46.	Noted. The draft Prudential Standard has been amended accordingly.

		9.11.24 to 9.11.46	➢ We would request the PA reviews the articles specified.	
16.	BASA	9.11 / MAR 40.40	MAR 40.40 contains reference table, "*Summary of treatment of interest rate derivatives*" that would be beneficial to add to the South African standards 9.11. ➢ We recommend the Authority consider the inclusion of the additional summary.	It is the view of the Authority that the summary is not necessary. The purpose of the draft Prudential Standard is to capture the requirements applicable to banks and this has been done.
17.	BASA	9.12 / MAR 40.52	MAR 40.52 contains reference table, "Summary of treatment of equity derivatives" that would be beneficial to add to the South African standards 9.12. ➢ We recommend the Authority consider the inclusion of the additional summary.	See response to comment 16 above.
18.	BASA	9.15.13 (b)	➢ We recommend the Authority review the example presented in article 9.15.13 (b) and removing reference to LIBOR which has been phased out. "*For example, the holder of a three-year floating rate bond indexed to six-month LIBOR with a cap of 15 percent will treat it as- "*	Noted. Libor has been replaced with the term 'benchmark rate'.
10. STANDARDISED APPROACH				
19.	Standard Chartered Bank – Johannesburg Branch	**PA rule on national exemptions for SA-DRC** 10.3.19 The Authority may, in consideration of regulation	For national exemptions where a zero risk weight is applied, what is the mechanism by which the definitive set of exposures to be covered by rule 10.3.19 will be communicated and what is the timeframe for this?	The Authority will decide on the timeline and communicate the same to the sector. The instrument to be used will be a determination issued by the PA in terms of paragraph 10.3.19 of the draft Prudential Standard.

		23(8)(a) of the Regulations, determine sovereigns, public sector entities and multilateral development banks where a DRW of 0 percent may be applied. In addition, the Authority may determine a non-zero risk weight to securities issued by certain foreign governments, including to securities denominated in a currency other than that of the issuing government.		
20.	BASA	10 RBC25.27 Risk externalisation	The industry notes the PA feedback and would like to highlight that it does not believe that contractual ('exact') matched trade between the banking book and external counterparty will be market risk neutral.	The Basel Framework refers to 'exactly matches'. The external hedge should exactly offset the internal trade.

			Back-to-back trades could generate residual market risk due to difference in discounting between external and internal trades linked to collateralisation or counterparty risk. Industry requests the Authority to reconsider its feedback.	
21.	BASA	10.3.4/10.3.9	Decomposing indices involves revaluing each constituent name in the index individually. For the DRC calculation, each constituent is treated as if it experiences a 100% jump to default and the Market value is recalculated. <u>Scope of Indices:</u> International credit and Equity indices that captures large and midcap representation across developed markets. <u>Computational intensity</u> The decomposition process requires acquiring additional data for the individual names in an Index (between 500 and 1000 names in each index) which a South African Bank may not have a standalone exposure to. <u>Data requirements</u> 1. Market data (spot prices) 2. Basket constituents will be set up and a process to refresh the basket 3. Credit Ratings <u>System requirements</u> There may be instances where the above data is acquired and distributed from different	The Authority will not be deviating from the Basel Framework.

			systems and integrated into the FRTB calculator which will require additional resources and enhancements. Industry request Given that: I. certain indices represent constituents from developed countries (investment grade names) II. SA banks will have almost zero exposure to these constituent companies - the DRC cannot be added to existing exposures. Will the Authority consider certain criteria / options for non-decomposition.	
22.	BASA	10.7.20	Additional discussion is required as it is not clear why the Authority believes this can lead to a double benefit	Now paragraph 10.7.24 of the draft Prudential Standard. MAR 21.78 If an equity repo rate is replaced with a GIRR risk factor, two things can occur: 1. The capital requirement for equity delta could decrease due to the lack of an equity repo rate delta (MAR 21.78). 2. There is a possibility that the GIRR capital requirement will decrease due to the new GIRR being generated by this equity position being in the opposite direction to the rest of the GIRR in the book. This would allow for an offset in risk that results in a reduction of GIRR delta when aggregating (MAR 21.45). The above two scenarios happening at the same time would result in a double benefit for a bank − both a reduction in equity delta and a reduction in GIRR delta.
23.	BASA	10.3.6	➢ The verbiage at the end of the paragraph is incomplete. The word “default” should be added to the last sentence.	Noted. The draft Prudential Standard has been amended to include ‘default’ at the end of the sentence.

24.	BASA	10.3.12	➢ We recommend the Authority consider adding a reference to gross JTD, aligned to MAR 22.12 and paragraph 10.3.1. This would avoid confusion with other JTD calculation (e.g. net JTD) *"For calculating the JTD as in paragraph 10.3.1 above, the value of LGD"*	Noted. The draft Prudential Standard has been amended to include 'gross' in paragraph 10.3.12.
25.	BASA	10.3.12(d)	There is a difference between the Basel text and the Prudential Standard with respect to the LGD for exposures whose price is not linked to recovery rate of an issuer. The Basel text says that the LGD multiplication should not occur, whereas the Prudential Standard says that the LGD should be set to 0%. This will create a difference in terms of the JTD exposure calculated. It is recommended that the Prudential Standard aligns with the Basel regulations for consistency.	Noted. The draft Prudential Standard has been amended accordingly.
26.	BASA	10.3.13	➢ We recommend that points 10.3.13(b) and 10.3.13(c) should be sub-points of 10.3.13(a)(iii)	Noted. The draft Prudential Standard has been amended accordingly.
27.	BASA	10.3.14	➢ There is a reference to 10.3.8 in this paragraph. This should reference 10.3.13 instead.	Noted. The draft Prudential Standard has been amended accordingly.
28.	BASA	10.3.17	When assigning risk weights to Net jump-to-default for the purposes of calculating the Default risk charge, the credit quality of the issuer is considered.	The correct reference is paragraph 10.3.18. The draft Prudential Standard specifies that if there is no external rating, the bank may use its own internal rating after approval from the Authority. If the bank does not have permission to use its own internal rating then exposure will

			➢ However where an external or internal issuer level rating is unavailable, could assignments be made based on an issuance specific basis aligned to a long-term issuance.	be assigned to the unrated bucket. The draft Prudential Standard has been amended to make this clearer.
29.	BASA	10.3.18 (b) .	*"Where there are no external ratings or where external ratings are not recognised within South Africa, bank must subject to the approval of and such conditions as may be imposed by the Authority –* *(i) for the purpose of assigning delta CSR non-securitisation risk weights, map the internal rating to an external rating, and assign a risk weight corresponding to either "investment grade" or "high yield" in paragraph 10.9.1 below.* *(ii) for the purpose of assigning default risk weights under the DRC requirement, map the internal rating to an external rating, and assign a risk weight corresponding to one of the seven external ratings included in paragraph 10.3.17 above;* *(iii) apply the risk weights specified in paragraph 10.3.17 above and paragraph 10.9.4 below."* The Basel text refers to alignment with the CVA regulations in MAR 22.24 FAQ 1 *"Consistent with the treatment where there are no external ratings under the CVA risk chapter (see MAR50.16), where there are no external ratings or where external ratings are not recognised within a jurisdiction, banks may, subject to supervisory approval….".*	See response to comment 28 above. Approval to use internal rating will likely be a one-off approval, as approval is provided for the internal credit rating methodology.

			The CVA Regulations then provides clarity of the default treatment should a bank not apply for supervisory approval or supervisory approval is not granted in MAR 50.16 *"where there are no external ratings or where external ratings are not recognised within a jurisdiction, banks may, subject to supervisory approval, map the internal rating to an external rating and assign a risk weight corresponding to either IG or HY.* ***Otherwise, the risk weights corresponding to NR is to be applied."*** ➢ Could the Authority please clarify the default treatment aligned to the CVA wording to remove any uncertainty of the treatment for FRTB, should no approval be received from the Authority or approval not requested to use external ratings. ➢ Could the Authority please clarify where approval is sought, whether the approval is on a once-off basis for the general approach or requires approval at each unrated entity level.	
30.	BASA	10.4.8	We note the additional condition or MAR22.32(2), "*Any securitisation exposure that a bank cannot assign to a type or region of underlying in this fashion must be assigned to the "other bucket*".", does not appear in local South African regulation. ➢ We recommend the Authority review and provide more information.	Noted. This is implied in paragraph 10.4.7 above. However, the draft Prudential Standard has been amended to include the clarification.

31.	BASA	10.5.3 to 10.5.5	➢ We recommend the Authority add a reference to gross JTD, aligned to MAR 22.36 and paragraph 10.5.1. This would avoid confusion with other JTD calculation (e.g. net JTD). *For example:* *"In calculating the JTD referred in paragraph 10.5.1 above, nth-to-default products must be treated as tranched products"*	Noted. The draft Prudential Standard has been amended accordingly.
32.	BASA	10.5.11	➢ We recommend the Authority consider if article be updated or re-worded with the relevant article /section / reference to South African Securitisations framework. *"The default risk weights for securitisations applied to tranches are based on the corresponding risk weights for the banking book instruments, which is defined in separate Basel Committee publication - Revisions to the Securitisations framework of 2014, 2016 and 2018, with the following modification- the maturity component in the banking book securitisation framework is set to zero, that is a one year maturity is assumed to avoid double-counting of risks in the maturity adjustment (of the banking book approach) since migration risk in the trading book will be captured in the credit spread capital requirement."*	Noted. The Prudential Standard has been amended to make reference to the Regulations relating to Banks as well as directives and exemption notices issued in terms of the Banks Act, 1990 (Act No. 94 of 1990).
33.	BASA	10.5.13 (a)	➢ We note "HBRCTP" requires correction of subscript CTP.	Noted and amended accordingly.

34.	BASA	10.6.2	➢ We recommend that Footnote 24 should be superscript.	Noted and amended accordingly.
35.	BASA	10.6.17	We note that point (a) and (b) of MAR 21.7 (2) does not appear to be included in the South African regulation. ➢ We recommend the Authority consider adding this, especially point (b) clarifying desk level reporting requirements.	Noted. The draft Prudential Standard has been amended accordingly.
36.	BASA	10.7.3 / 10.7.5	➢ We recommend the Authority consider, when applicable, remove reference to phased out reference rates, and propose removing "For example, interbank offered rate (BOR) swap curves." "*Alternatively, the risk-free yield curve must be based on one or more market-implied swap curves used by the bank to mark positions to market. For example, interbank offered rate (BOR) swap curves."*	Phased-out reference rates have been replaced in the draft Prudential Standard.
37.	BASA	10.7.6 (b)	We note the last sentence part is missing when comparing the Basel doc (section 21.8.2 (b))	It is introduced in the next sub-paragraph (c).
38.	BASA	10.7.7 (b)	We note the last sentence part is missing when comparing the Basel doc (section 21.8.3 (b))	It is introduced in the next sub-paragraph (c).
39.	BASA	10.17.3/10.17.4	➢ We recommend that the Authority should not explicitly state a list of specific typologies rather define the behavior of the instrument.	The Authority has drafted this requirement as per the Basel Framework and will not deviate from what is included in the framework.

			A similar request was asked of the EBA, and they have published the list of instrument bearing other residual risk without referencing directly to instrument types such as Asia options. RTS Annex: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022R2328 EBA Ref: EBA PRESENTATION TITLE COMES HERE (europa.eu) Article 325u | European Banking Authority (europa.eu) Delegated regulation - 2022/2328 - EN - EUR-Lex (europa.eu)	
40.	BASA	10.17.8 (b)	We note that there seems to be a reference to section 12.2 which is not in the Prudential Standard.	Noted. Paragraph 10.17.2 was amended.
41.	BASA	10.7.16 Comments raised on v2.	*"Other examples are as follows-* *(a) must be excluded from the RRAO capital requirement-* *(i) instruments in a transaction that exactly matches with a third-party transaction (a back-to-back transaction), which applies to the instruments used in both transactions;* *(ii) any instrument that is listed and/or eligible for central clearing;* *(b) must be included in the RRAO capital requirement-* *(i) any instrument that is listed and/or eligible for central clearing with an exotic underlying;*	Noted. The correct reference is paragraph 10.17.6. Paragraph 10.17.6 has been amended to delete (b)(ii) and (iii).

			(ii) hedges, including dividend swaps, that do not fulfill the criterion in sub-paragraph (a)(i) above; *(iii) total return swaps that do not fulfill the criterion in sub-paragraph (a)(i) above."* ➢ We request that the Authority please consider rewording b(ii) and b(iii) in the above section (which is aligned to FAQs in the Basel text). The above wording implies all hedges and all total return swaps are included for RRAO, rather than hedges and total return swaps which in themselves have characteristics that make them subject to RRAO. ➢ Can the Authority clarify how the reference to include dividend swap hedges should be interpreted in the context of 10.17.5 (d) which specifically says that the following risk type does not make instruments subject to RRAO *"Dividend risk arising from a derivative instrument whose underlying does not consist solely of dividend payments".*	
42.	BASA	10.7.37	➢ We request that the Authority remove hyphen ("-") after FX, to align with rest of article SbM naming convention. "*The FX- vega risk factors are the implied volatilities of options that reference exchange rates between*"	Noted. The draft Prudential Standard has been amended accordingly.

43.	BASA	10.7.55	➢ We request that the Authority please consider changing the reference to the Standard, to the specific section of the South African regulation. "*If, for internal risk management, a bank computes vega sensitivities using different definitions than the definitions set out in this Standard, it must transform the sensitivities computed for internal risk management purposes to deduce the sensitivities to be used for the calculation of the vega risk measure*."	'Standard' in this context refers to the draft Prudential Standard.
44.	BASA	10.8.9 Table 5	➢ We would recommend aligning or updating table 5 formatting.	Noted. The draft Prudential Standard has been amended accordingly.
45.	BASA	10.9.11	➢ We would recommend aligning the format of equation, and format of summation symbol to the rest of the regulatory equation format. Please see equation 10.11.11 or 10.12.11 as examples.	Noted. The draft Prudential Standard has been amended accordingly.
46.	BASA	10.13.5 (b) (ii)	We note a full stop is missing at the end.	Noted. The draft Prudential Standard has been amended accordingly.
47.	BASA	10.15.3	Vega risk weights are set 100%, except for equity, large cap or indices set at 77.78%. A 100% risk weight results in 100 % of Vega multiplied by implied volatility being the input into the aggregation calculation for SBM. Historical scenarios for volitivity though the GFC stress period are much lower than the	This request would constitute a deviation from the Basel Framework. The Authority will not deviate from the Basel Framework.

			FRTB risk weight of 100%. For example the largest shift is USD/ZAR vol is around 40%. Delta and curvature risk weights across differ per asset class based on the bucket that the risk factor is assigned. Buckets that are higher risk receiver higher risk weights whereas as for Vega a flat risk weight of 100% is applied. ➢ Industry request: • that the Authority consider lower Vega risk weights that are more aligned to stresses seen in the GFC stress period. • that the Authority consider Vega risk weights that are not fixed to 100% rather more aligned to the variation seen in Delta risk weights i.e a per bucket risk weight	
48.	BASA	10.15.6	We note that article 10.15.6 contains an additional or missing bracket. *"considered as a correlation based on delta risk factors* ($\rho_{kl}^{(Delta)}$ *in the calculation of vega risk as in paragraph 10.15.5 above."*	Noted. The draft Prudential Standard has been amended accordingly.
49.	BASA	10.17.4	Paragraph 10.17.4(a) refers to instruments with multiple call dates when referencing criteria for inclusion in the RRAO calculation. This could be confused with American options – vanilla American options should not carry a RRAO. ➢ We propose that the Authority consider changing "multiple" to "specific".	The Authority is of the view that the use of the word 'multiple' does not cause confusion. The Authority will not deviate from the Basel Framework.

			➢ 10.17.5(c) does make an exemption for American options, but probably should still ensure the wording remains clear.	
50.	BASA	10.17.8(b)	*"the RW for instruments with an exotic underlying as in **12.12** is 1.0%"* ➢ The reference to 12.12 appears incorrect.	Noted and updated paragraph cross-reference.
51.	BASA	10.17.6(b)(iii)	The draft prudential standard includes a FAQ reference in in the Basel text (MAR 23.7 FAQ 2) as part of the regulatory text. The prudential standard implies that all Total Return swaps are subject to RRAO, unless two Total Return swaps are fully back-to-back. However, read in the context of the whole RRAO section of the Basel text, the FAQ seems to rather refer to the ability to net those Total Returns Swaps that are within the scope of RRAO, and not that all Total Return Swaps form part of RRAO. ➢ We request further clarification from the Authority on this matter.	See response to comment 41 above.
52.	BASA	9.1 and 10.12.1	Concern is that the Real Estate sector is not classified at all in the bucketing for CSR. The industry proposed to align with Equity only because no treatment is specified. If this proposal is not agreeable, we propose that further clarification should be provided on which bucket should apply for CSR bucketing for Real Estate.	Also refer to paragraph 10.9.1 of the draft Prudential Standard. Sector exposures that are not explicitly classified in the credit spread risk (CSR) bucketing should be allocated to bucket 16 (other sectors).

53.	BASA	MAR23.7	Additional discussion is required as the proposed solution will not underestimate capital. The unmatched notional will always be fully capitalised and economic movements on the matched positions will always fully offset. The request is to recognize back-to-back positions, not back-to-back trades.	Reference to paragraph 10.17.6 of the draft Prudential Standard. This constitutes a deviation from the Basel Framework. If necessary, further guidance may be provided on this matter.
54.	BASA	MAR21.14 CMA currency treatment	We request that the Authority consider further discussion on this topic as we believe the current practice defined does not form part of the FRTB regulations	Noted. Common Monetary Area (CMA) currencies will be treated in accordance with the applicable exchange control requirements.
11. INTERNAL MODELS APPROACH				
55.	BASA	11.7.1	Feedback is noted, the industry would like to request the PA to provide additional guidance on preferred way that Bank' s should treat a basis risk position, were once of the risk factors fails RFET and the other offsetting risk driver passes RFET (for example bond-swap basis). ➢ Could a Bank choose to exclude both risk factors from Expected Shortfall and include it in the calculation of SES. ➢ Could a Bank choose to default the entire position or desk to the Standardised Approach.	Noted. Irrespective of the basis position, if a risk factor fails the RFET, it cannot be incorporated to the ES model. Banks retain the prerogative to determine the appropriate treatment of a basis risk position, taking into consideration that risk factors that fail the RFET cannot be incorporated into the ES model.
56.		11.7.5 Comments raised on v1	We would request the Authority consider additional guidance on the proposed materiality of "non-negligible".	Guidance is provided under footnote 27.
57.	BASA	11.6.4	Point 11.6.4(d) is a duplication of the main verbiage in 11.6.4 just above.	The correct reference is 11.4.4 and 11.4.4 (d). The draft Prudential Standard has been amended to align with the Basel Framework.

58.	BASA	11.11.1 (c)	No mention is made of comparing T-2 VaR with T-1 P&L as is currently performed. There is a concern around a timing misalignment between the P&L and VaR. ➢ We would request that the Authority explicitly included a provision to cater for the timing mismatch.	Unless explicitly specified otherwise, the value at risk (VaR) backtesting process is maintained in its current form.
59.	BASA	11.11.4 (e)	We would request that the Authority please provide clarity on whether the two-stage approval process detailed in this point implies that banks may run a mixed MR capital model approach (i.e. IMA for ES, SES and then SA DRC) or is the two-stage approval a pre-requisite to run the IMA model in its entirety?	The two-stage approval a pre-requisite to run the IMA model in its entirety.
60.	BASA	11.17.8 Table 15	We note table 15 contains an additional column with no data that should be removed. Additionally, the last column refences “N” and not “n” incorrectly.	Noted and amended accordingly.
61.	BASA	11.20.12	We note a missing full stop.	Noted and amended accordingly.
62.	BASA	11.20.18	➢ We would request that the Authority clarify if explicit permission is required for CSR risk factors in the ES model. ➢ If so, we recommend this is mentioned in the general provisions section and not the DRC section only as this can be overlooked.	Paragraph 11.20.18 speaks to the approval required at trading desk level. Requirements for use of the ES model are captured in the draft Prudential Standard.
63.	BASA	11.20.20 (d)	➢ We recommend that this should be made a standalone point as it speaks to both PDs and LGDs (i.e. Should be point 11.20.21)	Noted and amended accordingly.

64.	BASA	11.22.1 (b)	➢ We recommend that the last column in table in 11.11.13 should be reduced by the base multiplier of 1.5 such that there is a consistency between 11.11.13 and 11.22.1 (b) and 11.22.2	The correct table reference is under 11.11.3. The multiplier referenced in the table is the multiplier after the backtesting add-on has been included, with 1.5 being the lowest (backtesting add-on equal to 0) and 2 being the highest (backtesting add-on equal to 0.5) as referenced in 11.22.2(b). The multiplier in paragraph 11.11.3 does not include the qualitative add-on. Instead of changing the numbers in paragraph 11.11.3, the heading of the column has been amended to make the above clear.
12. REGULATORY ACTION				
			No comment received	Noted.
13. APPLICATIONS TO THE PRUDENTIAL AUTHORITY				
			No comment received.	Noted.
14. REPORTING REQUIREMENTS				
			No comment received.	Noted.
15. TRANSITIONAL ARRANGEMENTS				
			No comment received.	Noted.
GENERAL COMMENTS ON THE PRUDENTIAL STANDARD				
65.	Standard Chartered Bank – Johannesburg Branch	Offsetting provision for cash / TRS positions with maturity mismatches	There is no draft implementing rule explicitly mentioning the cash-TRS offsetting issue discussed in the Basel FAQ for MAR22.18. What is the PA's position on this? [Other regulators have been lobbied on this recently including the UK PRA and EU regulators. The international picture is that the rules for US, SG, CA all include this explicitly, while for HK, CN the HKMA and NFRA have both said they will honour the Basel FAQ even if not explicitly included in the local implementing rules.]	Noted. The FAQ has been added to the draft Prudential Standard.
66.	*A branch of a foreign bank	Confidentiality – Annexures D and E for FRTB	This is a concern as comments solicited from individual banks were shared with all the industry participants bearing in mind different	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

		and CVA respectively	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 *be treated confidentially and engaged upon on a bilateral basis, given the previous comment on limitations within IBA circle.	consultation report. The consultation report is required by the FSR Act in terms of the standard-making process. The International Banking Association is, as is any other industry body, welcome to provide comments on regulatory instruments and approach the PA with any concerns.
67.	Discovery Bank	Whole standard	Discovery Bank currently does not have a trading book and very limited market risk exposure. Approval was obtained for the SSA approach in 2023. Therefore the majority of the standard is not yet applicable to us, but will be monitored with the growth of the product set.	Noted.
68.	Albaraka Bank	Whole standard	No comment	Noted.
69.	BASA	Offsetting provision for cash / TRS positions with maturity mismatches	There is no draft implementing rule explicitly mentioning the cash-TRS offsetting issue discussed in the Basel FAQ for MAR22.18. [Other regulators have been lobbied on this recently including the UK PRA and EU regulators. The international picture is that the rules for US, SG, CA all include this explicitly, while for HK, CN the HKMA and NFRA have both said they will honour the Basel FAQ even if not explicitly included in the local implementing rules.]	See response to comment 65 above.

			➢ What is the Authorities position on this?	
70.	BASA	PA rule on national exemptions for SA-DRC	*10.3.19 The Authority may, in consideration of regulation 23(8)(a) of the Regulations, determine sovereigns, public sector entities and multilateral development banks where a DRW of 0 percent may be applied. In addition, the Authority may determine a non-zero risk weight to securities issued by certain foreign governments, including to securities denominated in a currency other than that of the issuing government.* ➢ We would request clarification from the Authority, for national exemptions where a zero-risk weight is applied, what is the mechanism by which the definitive set of exposures to be covered by rule 10.3.19 will be communicated and what is the timeframe for this?	The Authority will decide on the timeline and communicate the same to the sector. The instrument to be used will be a determination issued by the PA in terms of paragraph 10.3.19 of the draft Prudential Standard.
71.	BASA	Industry Prioritisation list	Industry reference to our discussion document of 6 September 2023 for items for consideration before v2 was submitted incl. • Equity market classification • Credit Trading Markets • Requirement for an IMA DRC model • Model validation guidelines - Requirement for testing of model • Model validation guidelines – Dual governance process • Alpha factor for SA-CCR FX SA-CVA	Following a meeting with the BASA representative, it was agreed that the Authority would only address the equity market classification query. A decision was made on the equity market classification for South Africa which will be communicated in due course.
72.	*Branch of a foreign bank	General	Refer above on Standards.	Noted.

COMMENTS ON THE REPORTING TEMPLATE AND DETERMINATIONS				
No	**Commentator**	**Tab**	**Comments**	**Response**
COMMENTS				
73.	Bidvest bank Limited	FRTB Foundational metrics	The links are not working on line 7, 8,14 and 15	Noted. These have been amended accordingly.
74.	*Branch of a foreign bank	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.	The requirement for market risk regulatory capital reporting is on a monthly basis, at minimum. However, the Authority maintains the right to request market risk regulatory capital requirement reports as and when needed, such as daily.
75.	BASA	IRT Desk consolidation	➢ Industry would request further clarification on how a bank should report and consolidate IRT desk(s) exposure as part of the various reporting sheets. For example, IRT desk should be capitalised assuming no diversification with the rest of the trading book exposure, how is this captured or reported by the “SA risk class” sheet.	Calculations (e.g. sensitivities) will be performed for all trading desks except for the Internal Risk Transfer Desk, which will be evaluated independently on a standalone basis. The results for the Internal Risk Transfer Desk will be added to the results for all other trading desks. This approach has been implemented to eliminate any potential diversification benefits between the Internal Risk Transfer Desk and the other trading desks.
76.	BASA	Banking book exposure consolidation.	➢ Industry would request further clarification on how to report banking book exposure that forms part of Trading book capitalisation. 1) Should a bank include consolidated trading and banking book exposure for example on the “SA risk class” sheet. 2) Should a bank disclose banking book as a notional reporting desk as part of	A bank should include a consolidated view of banking and trading book exposure on the ‘SA risk class’ sheet. For banks that have approval for a notional trading desk, the notional trading desk will be reported as a separate desk on the ‘FRTB foundational metrics’, ‘trading desks’ and ‘SA desk level’ worksheets.

			“FRTB Foundational metrics”, “Trading Desks” and “SA desk level” workbook sheets.	
77.	BASA	FRTB Foundational Metrics	➢ We recommend that the Authority conduct focused industry workshops that would assist in providing clear definitions and guidance for all 17 lines in this template, in addition to the Excel reporting template to enable the industry to properly comment on what the intention of each line is. In the absence of this guidance, we re-iterate the request in v1 feedback, as posed by industry, especially to discuss the newly introduced “FRTB Foundational Metrics” tab that is not part of the Basel QIS template: • The points raised in this section are indicative of the issues we believe exist but is expected to benefit from further discussion between the industry and the Authority to achieve the best solution. • Industry would request that the Authority ensure sufficient time is allocated for any aspects of the regulation that will require system changes.	Noted. The Authority will engage with the industry regarding workshops and the regulatory reporting template.
GENERAL COMMENTS ON THE REPORTING TEMPLATE AND DETERMINATIONS				
			No comments received	

Table 4: Summary of comments received from the 2022 public consultation

Comment	Response

Clarification on the drafting conventions of the requirements, with requests to perfectly align to the Basel Committee on Banking Supervision's (BCBS) framework.	This was amended as deemed appropriate.
Clarification on definitions e.g., the definition of a trading desk.	Clarifications were provided.
Requests for footnotes from the BCBS text to be included in the draft Market Risk Standard.	Footnotes were included where deemed appropriate.
Clarification about the treatment of hedge funds.	Clarification was provided.
The PA's input on the terminology used in the draft Market Risk Standard, such as 'exactly matched'.	Input was provided.
Correction of perceived errors in the BCBS text.	Advised that errors will be addressed by the Basel Committee in technical revisions.
Clarification on the Rand thresholds amounts to be used by the PA as a replacement of the BCBS thresholds specified in non-Rand currencies.	To be provided in the next draft of the prudential standard.
Proposals on how certain requirements are being interpreted by the banks e.g., scope of equity delta risk factors.	Clarification and confirmation were provided.
The comments on the reporting template related to where figures should be captured, scoping etc.	Comments were taken into consideration and amendments were made to the reporting template.
Drafting and formatting suggestions.	Drafting and formatting amendments were made to the draft standard as deemed appropriate.

Table 5: List of commentators from the 2022 public consultation

No	Commentator	Contact Person
1	JPMorgan Chase Bank Limited, NA – Johannesburg Branch	Elize Crampton
2	Grindrod Bank	Amrisha Krishna
3	Discovery Bank	John Chemaly
4	Habib Overseas Bank Limited	Neo Motlagomang

5	HBZ Bank Limited	Kosheek Maharaj
6	BASA	Gary Heylett

Table 6: Full set of comments received during the public consultation conducted in 2022

No.	Commentator	Paragraph	Comment	Response
	COMMENCEMENT			
			No comments received	
	LEGISLATIVE AUTHORITY			
			No comments received	
	DEFINITIONS AND INTERPRETATION			
			No comments received	Noted
	ROLES AND RESPONSIBILITIES			
			No comments received	Noted
	APPLICATION			
			No comments received	Noted
	METHODOLOGIES FOR CALCULATING MARKET RISK CAPITAL REQUIREMENTS			
1	BASA	6.1	The draft Standards differ from the Basel text in that they state that a "*bank may be subject to one of the following approaches*" (listing all 3 possible approaches SA, IMA and SSA) vs. Basel (MAR 11.7) "*a bank may choose between two broad methodologies: the standardised approach and internal models' approach (IMA) for market risk*.	The Authority is of the view that the drafting of paragraph 6.1 of the Prudential Standard does not create any ambiguity or remove the choice of a bank to apply for the IMA. In terms of the Prudential Standard, a bank still has the choice to apply for the use of the IMA.

			• This difference in wording removes the ability of the bank to choose whether it would like to implement IMA or not. ➢ Industry request that the Authority amend the Standard and adopt the same terminology as the Basel text to avoid ambiguity.	
MATTERS RELATED TO COMPOSITION AND MANAGEMENT OF TRADING DESKS				
2	BASA	7.2	Industry has interpreted that this paragraph implies that the Authority will only use the trading desk definition, as part of internal model approval and for capital purposes. The Authority application process requiring approval of the trading desk structure applies to both cases where a bank wide Standardised Approach is implemented (this approach is not calculated at a desk level but is aggregated in total with no constraint on cross desk diversification) and where IMA is implemented for all or a subset of desks (this approach will result in a difference in aggregation benefits depending on the desk structure). ➢ Industry request that the PA Standard includes further criteria that clearly stipulates under which circumstances, trading desk approvals need to be renewed or updated when a bank only applies	The Authority disagrees with the industry interpretation. Paragraph 7.2 captures all the methodologies for calculating capital requirements for market risk. To eliminate any confusion, the word 'model' has been deleted from paragraph 7.2(c). For trading desks that are applying for IMA, the Authority's response will provide clarity on the conditions for renewal applications. The approval for trading desks in terms of paragraph 7.2 applies to SA and IMA. The Prudential Standard has been amended to empower the Authority to stipulate the requirements for renewal of the trading desk application as conditions to the initial trading desk approval.

			the Standardised Approach with no intention to implement the IMA approach. ➢ Industry request that the Authority clarifies how requirements that only apply to the IMA implementation such as Section 7.8(c) requiring the production of desk VaR/ES should be interpreted when a bank only applies the Standardised Approach with no intention to implement the IMA approach.	
3		7.5	➢ Industry recommend that Footnote 7-9 should not be phrased as questions. ❖ Clear guidance in the form of a statement will ensure banks can interpret this footnote accurately.	The questions have been rephrased into statements in the relevant footnotes.
4	BASA	7.10	The draft Standard (aligned to the Basel text) provides no definition of the scope of FX Risk in the banking book. The existing regulations (Banks Act of 1990, section 28(7)(d)(ii) provide very clear guidance on what constitutes the net open FX currency risk position. ➢ Industry recommends that the draft Standard adopts the existing regulatory definition of the net open FX currency risk position for FX Risk in the Banking book.	See paragraph 9.13.3 of the Prudential Standard that deals with the treatment of the net open position under SSA. The industry should note that regulation 28(7)(d)(ii) deals with the SA which, under the revised Basel Framework, is now part of the SSA.

			1. Industry notes a missing word “and” in the sentence “*7.10 Any FX commodity positions*”	
BOUNDARY BETWEEN THE BANKING BOOK AND TRADING BOOK				
5		8.3.6 (a) - (c)	It is unclear why this section is not a footnote as it is an example. This is also a duplication of the footnote. The footnote also incorrectly references 8.2.5 (f) instead of 8.3.5 (f).	Noted. The footnote has been amended to remove the example as it is covered under paragraph 8.3.6.
6		8.5.2	We believe that the reference to 8.2.1 to 8.2.10 is incorrect. - We believe the correct reference is to 8.3.1 to 8.3.10 ➢ Industry request that the Authority confirm / amend	Noted. The Prudential Standard has been amended accordingly.
7		8.7.1 (b) (i)	➢ Industry recommend that a definition is provided in the Standards for “*eligible protection provider”* as this has not been defined.	Refer to regulation 23(12)(e)(ii) of the revised Regulations relating to Banks which deals with ‘eligible third-party protection providers’.
8		RBC25.8 Hedge Fund classification	Consider a hedge fund where the bank has full look through to the underlying assets. Must such a hedge fund still be allocated to the banking book or can such a hedge fund that complies with 25.8(5)(a) be classified as trading book. ➢ The industry view is that where it is possible to model the risk of a	There is no definition of a hedge fund in South African legislation. In theory, hedge funds are generally characterised by excess risk-taking and a lack of transparency. In this regard, the conservative approach will be followed, especially in cases where investments are made in foreign hedge funds. Considering the criteria for trading book instruments (RBC 25.3), it is not possible to decisively indicate which hedge funds in the South African market can be allocated to the trading book. Therefore, the Authority is of

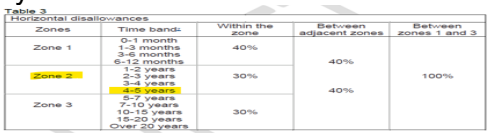
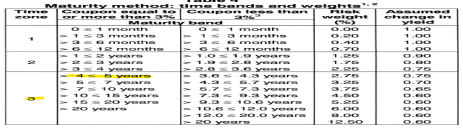
				hedge fund fully by applying look-through the option should exists to classify a hedge fund as trading book. Clarification was needed to understand what is defined as a hedge fund as it appears that there is not really a single common definition. The industry sought guidance from the BIS definition which defines a hedge fund as: “Unregulated investment fund and various types of money managers, including commodity trading advisers (CTAs), which share (a combination of) the following characteristics: they often follow a relatively broad range of investment strategies that are not subject to borrowing and leverage restrictions, with many of them using high levels of leverage; they often have a different regulatory mandate than "institutional investors" and typically cater to sophisticated investors such as high net worth individuals or institutions; and they often hold long and short positions in various markets, asset classes and instruments, with frequent use of derivatives for speculative purposes.” The general view is that what we typically call hedge funds in SA don’t comply with this definition primarily as they are	the view that hedge funds do not qualify under any condition to move from the banking book to the trading book. **RBC 25.8(6)-Hedge funds must be allocated to the banking book.**

			regulated. The proposed view is that “hedge fund” as stated in the RBC regs that is mandatory banking book means an unregulated fund that would consist of underlying exposures that do not confirm to trading book treatment. Therefor a fund which may be called a “hedge fund” but is regulated and would typically have look through to underlying that would classify as trading book, can be treated as trading book or banking book.	
9		RBC25.25(2) IRT	➢ The regulations do not preclude a bank from having more than one IRT desk, however each IRT desk will require the Authorities approval and need to comply with the requirements of MAR12.1-12.6 in respect of trading desks	A bank must apply to the Authority for the establishment of any trading desk. The Authority will assess the merit of the application against, inter alia, the requirement of MAR 12 (paragraph 7 of the Prudential Standard) as well as the trading book criteria.

10		RBC25.27 Risk externalisation	RBC25 makes several references to the fact that IRTs must exactly match the trade that externalises the risk for the capital benefit of a hedge to be realised. How are banks interpreting the meaning of 'exactly matching'? ➢ Industry view is that the intention of the externalization requirement is to ensure that no risk is mingled between the banking and trading books during the externalization.	The Basel text refers to 'exact match'. The external hedge should exactly offset the internal trade. Market risk should be fully hedged.
11		RBC25.25 Funding and IRT	Is funding between banking and trading book included in the scope of internal risk transfer or IRT and must it be captured in the IRT desk? IRT of GIRR risk from banking book specifically refers to hedging of banking book interest rate risk through the trading book. If risk transfer is coincidental as part of funding, but it is not the intention to hedge, do these trades need to form part of the IRT desk? Examples include: 2. Floating rate funding, where the first fixed period and the fixed spread carries some risk transfer? 3. Fixed rate term funding? What about if this is exactly matched between the banking book and an external trade. Does it still need to go through the IRT desk? 4. Funding via repos between the banking and trading book.	Agreed. The intention must be to hedge an interest rate risk. The asset class must be the interest rate and not cash, and the instrument must also be a derivative. For internal risk transfers from the banking book to the trading book, RBC25.21 to RBC25.27 apply. RBC25.21 speaks to the transfer of equity and credit. The text makes it clear that the intention of the desk is to hedge banking book exposure through the use of a trading book. RBC25.25 speaks to the transfer of GIRR. The text also makes it clear that the intention of the IRT desk is to hedge interest rate banking book exposure within a trading desk. MAR12.6 (FAQ1) speaks on the transfer of banking book FX/commodities risk to the trading book should a bank need to move the risk to the trading book.

			The industry consensus view is that the scope of trades be included for internal risk transfer purposes are all derivative trades (RBC 25.16 FAQ1) that have the specific purpose of hedging interest rate risk in the banking book (RBC25.25). Therefore, trades that are done for the purpose of funding between the banking book and trading book need not be included in the scope for internal risk transfer	In general, moving instruments via an IRT desk does not need the intention to be for hedging and the instruments do not have to be derivatives. FX risk carries the same capital charge in both the trading and banking book.
	SIMPLIFIED STANDARDISED APPROACH			
12	Discovery Bank	9.2	Currently, the only market risk exposure Discovery Bank has is on its net open foreign exchange position. We note the 1.2 scaling factor that would now need to be added to the calculations.	Noted.
13	BASA	9.9.3 (iv)	The draft Standard and Basel text differ on the definition of "*Qualifying*" IR specific risk issuers bucket. Basel text MAR 40.11: **Issuers** that are unrated but deemed to be Investment Grade and subject to similar regulatory standards, classify for the Qualifying bucket. Standard: The Authority only specifies BANKS in this category as qualifying, not all issuers meeting this criterion. "*Issued by banks deemed to be equivalent to IG quality and subject to supervisory and regulatory arrangements comparable to those under this Standard."*	Noted. The reference to 'bank' has been deleted and replaced with 'financial institution'.

			➢ Industry request that the Standard align with MAR 40.11 ❖ Furthermore, the qualifying category shall include securities issued by institutions that are deemed to be equivalent to IG quality and subject to supervisory and regulatory arrangements comparable to those under this framework.	
14	BASA	9.9.4	The draft Standard text is vague, as it does not specify whether national discretion is given to apply a lower specific risk capital to government paper denominated in domestic currency and funded by the bank in the same currency. It only states this could be allowed under national discretion by the Authority. Standard text: "*When the government paper referred in paragraph 9.9.3(a) above, is denominated in the domestic currency and funded by the bank in the same currency, at national discretion, a lower specific risk capital requirement may be applied*…" ➢ Industry request further clarification	Noted. The Prudential Standard has been revised to refer to the dispensation that will be applied in terms of the credit risk framework, regulation 23(6)(j) (revised framework).
15	BASA	9.10.10 (a)	Clarity is required on whether the 4–5-year bucket should be zone 2 or zone 3	The comment is noted. The Authority is awaiting publication from the Basel Committee on Banking Supervision on any technical revisions and FAQs.

			as the table and text in the Standard do not agree. Wording does not align to what table 3 shows "*where zone 1 is set as zero to one year, zone 2 is set as one year to four years, and zone 3 is set as four years and over* …" In table 3 of the Basel text regulations (MAR 40.28) as well as the Standards (9.10.10 a), the 4–5-year bucket is assigned to zone 2, not 3 as specified by the text.  Table 3 Horizontal disallowances Zones | Time bands | Within the zone | Between adjacent zones | Between zones 1 and 3 Zone 1 | 0-1 month, 1-3 months, 3-6 months, 6-12 months | 40% | 40% | 100% Zone 2 | 1-2 years, 2-3 years, 3-4 years, 4-5 years | 30% | 40% Zone 3 | 5-7 years, 7-10 years, 10-15 years, 15-20 years, Over 20 years | 30% This is a change from the current Regulation 28 table where the 4–5-year bucket did fall within zone 3 as specified by the Basel text.  Table 4 Maturity method: time bands and weights[1, *] Time zone | Coupon equal to or more than 3% | Coupon less than 3%[2] | Risk weight (%) | Assumed change in yield Maturity band 1 | 0 ≤ 1 month | 0 ≤ 1 month | 0.00 | 1.00 > 1 ≤ 3 months | > 1 ≤ 3 months | 0.20 | 1.00 > 3 ≤ 6 months | > 3 ≤ 6 months | 0.40 | 1.00 > 6 ≤ 12 months | > 6 ≤ 12 months | 0.70 | 1.00 2 | > 1 ≤ 2 years | > 1.0 ≤ 1.9 years | 1.25 | 0.90 > 2 ≤ 3 years | > 1.9 ≤ 2.8 years | 1.75 | 0.80 > 3 ≤ 4 years | > 2.8 ≤ 3.6 years | 2.25 | 0.75 3 | > 4 ≤ 5 years | > 3.6 ≤ 4.3 years | 2.75 | 0.75 > 5 ≤ 7 years | > 4.3 ≤ 5.7 years | 3.25 | 0.70 > 7 ≤ 10 years | > 5.7 ≤ 7.5 years | 3.75 | 0.65 > 10 ≤ 15 years | > 7.5 ≤ 9.3 years | 4.50 | 0.60 > 15 ≤ 20 years | > 9.3 ≤ 10.6 years | 5.25 | 0.60 > 20 years | > 10.6 ≤ 12.0 years | 6.00 | 0.60 > 12.0 ≤ 20.0 years | 8.00 | 0.60 > 20 years | 12.50 | 0.60 Reg 28 table 4: ➢ Industry request further clarification, and for the text and table 3 to be in line both within the Standard and with the Basel text.	
16	BASA	9.10.13 (a)	We believe the reference to table 3 is incorrect and should instead refer to table 4.	Noted. The cross reference has been amended.

17	BASA	9.11.1	Subscript correction CRIRR to CR_{IRR}	Noted. IRR has been subscripted.
18	BASA	9.11.24	Subscript correction CRIRR to CR_{IRR}	Noted. IRR has been subscripted.
19	BASA	9.11.28	Footnote “20.” not linked and should be removed.	Agreed. The footnote should stay but be moved to the correct page.
20	BASA	9.14.3	Footnote “21” not linked and should be removed.	Amended accordingly.
21	BASA	9.14.5	“Financing (. a physical stock”) Missing word needs correction.	Noted. Addressed by inserting ’that is’.
22	BASA	9.14.10 (c)	Inconsistent use of “-” and “–” for time bands naming convention.	Amended accordingly.
23	BASA	9.15.11	Incorrect spacing “book (such as, but not”)	Amended accordingly.
24	BASA	9.15.12 /9.15.13	“These sensitivities are calculated according to the following models which must be approved by the Prudential Authority- (i) an exchange model; or 9.15.13 the bank’s proprietary options pricing model.” ➢ The industry would request that the Authority consider rewording or restructuring the articles. Article 9.15.12 appears to be incorrectly flowing into next article 9.15.13.	Amended accordingly.

25	BASA	9.15.17 (b)	➢ The industry would request that the Authority consider the addition of a comma or line spacing after the Gamma formula to avoid confusion. The gamma formula could be incorrectly read as “VU^2 x VU”	Amended accordingly.
26	BASA	9.15.17 (c)	“band” as set out in Table 2,”Banks” Missing space that needs correction. 5.	Amended accordingly.
STANDARDISED APPROACH				
27	JP Morgan	10.7.54 (e)	“the total market capitalisation of all the constituents of the index is no less than such an amount determined in writing from time to time by the Prudential Authority.” The Prudential Authority has kept the threshold amount open to change and the mention of the phrase ‘time to time’ shows that it will keep changing based on certain criteria. This approach brings variability to the proposed regulation and frequent changes can result in unnecessary jumps in the capital requirement. Basel rules as per 21.31 (5) has kept it constant at USD 40 billion.	The Authority has created an enabler. Given that the Basel text had included a specific USD figure in the text, the PA needs to determine what threshold it would apply in the South African market and this enabler allows it that discretion. This does not imply that the Authority will be changing the threshold frequently. 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.
28	JP Morgan	10.12.4	“Large market cap is defined as a market capitalisation equal to or greater than an amount determined by the Prudential Authority from time to time and small market cap is defined as a market capitalisation of less than an	See response to comment 27 above.

			amount determined by the Prudential Authority from time to time."	
29	JP Morgan	MAR 21.11	The Basel Regulations Section 21.11"CSR securitisation: CTP risk factors" is not included in the Regulations.	Noted. Inserted MAR21.11 in the Prudential Standard in paragraph 10.7.20 onwards.
30	BASA	10.3.1(b)	The draft Standard defines notional to be used in the calculation of jump-to-default, as the bond-equivalent notional amount or face value of the position. It is not clear whether the face value of the bond refers to the par value at issue date, or in the case of, for example an inflation-linked bond or amortizing bond, if the current outstanding notional should be applied. The face value appears to be commonly accepted as par value/notional at issue date which does not capture the correct jump-to-default risk for a bond where the notional may change. ➢ Industry recommends that the face value should be clearly defined in the Standard as the outstanding notional exposure on the date of capital calculation and not on the issue date of the instrument. ❖ This is applicable to all instruments including, but not limited to, inflation bonds,	The drafting is aligned to MAR 22.11. However, the Authority has clarified via a footnote that the notional amount for the purposes of the jump-to-default (JTD) calculation means outstanding notional amount.

			amortizing bonds, contingent credit default swap trades and zero-coupon trades.	
31	BASA	10.3.6; 10.3.11	Section 10.3.6 of the draft Standard is inherited from a FAQ under Basel MAR 22.5; 22.12; 22;14. This FAQ states "*The JTD equivalent is defined as the difference between the value of the security or product assuming that each single name referenced by the security or product, separately from the others, defaults* ***(with zero recovery)*** *and the value of the security or product assuming that none of the names referenced by the security or product default*". By changing the status of this item from a FAQ to be include as a regulation and removing the brackets, creates two contradictory regulations (10.3.6 and 10.3.17). 1) Section 10.3.17 (MAR 22.12) allows for non-zero recovery rate for e.g., senior debt. This will cause unmatched recovery rates when a credit index position is hedged with single name credits. 2) In the context of an FAQ and considering the brackets used, this section was interpreted as an example to be applied in the case of equity positions which are	Noted. Paragraph 10.3.6 has been amended to reflect the default as provided for in paragraph 10.3.17.

			subject to 0% recovery rate, but when the multiple underlying is made up of senior debt instruments, a recovery rate of 25% as per regulation Section 10.3.17 (MAR 22.12) should be applied. Industry recommends that Section 10.3.6 be included as a footnote to Section 10.3.4 with clear reference that the zero-default recovery rate is only applicable to the case of equity and used as an example.	
32	BASA	10.3.15	Section 10.3.15 specify that "Cash equity positions (stocks) are assigned to a maturity of either more than one year or three months, at banks' discretion". Discrete allocation of a maturity (0.25 years or 1 year with no allowance in between) can cause breaks in the recognition of hedging strategies, especially as the derivative maturity will reduce while the stock stays static. Depending on the time to maturity this can result in undercapitalisation. For example, assume a long stock position where only 50% of the default risk exposure is hedged via a short call option.: - Long Stock (R100 notional) scaled by discretionary 3m maturity factor.	Irrespective of the manner in which a bank defines the concept of a 'sub-portfolio', the SA in the Prudential Standard (aligned to the Basel text) does not permit the assignment of different maturity factors (i.e. either three months or one year) at a sub-portfolio level. The assignment happens at a position level, in this case at cash equity position level. The cash equity position can only be changed between the maturity factors of one year or three months throughout the life of the trade as the derivative approaches maturity. The cash equity positions cannot mirror the maturity levels of the derivatives except at the one-year or three-month maturity factor.

			- Short Call Option (R-50 notional) with a contractual 1-year maturity. - Scaled JTD Long position = R100 x 0.25 = R25 - Scaled JTD Short = R-50 x 1 = R-50 - Net JTD = R-25 As the net JTD results in a negative number there will be no DRC charge while there is clear default risk present. This mismatch will reduce as the option maturity reduces until it matches the maturity of the option. While the above example shows that the discretionary application of the maturity factor can lead to under capitalisation it is also possible that it can lead to a non-economical over capitalisation. ➢ Industry recommends that the Prudential Standard should clearly allow for flexibility to: (1) assign a maturity factor of 3 months or 1 year to different sub portfolios on the same desk and (2) change the maturity factor assigned to a strategy at a sub portfolio level throughout the life of the trade as the derivative moves closer to maturity, thereby better	

			reflecting the economic risk of the trade at a point in time.	
33	BASA	10.3.22	Basel MAR 22.24 provides in FAQ 1 : (1) the treatment when multiple, but different external ratings exist. (2) the use of internal ratings for the purposes of CSR delta and Default Risk Charge subject to supervisory approval. This section does not appear to have been included in the Standard. MAR 22.24 FAQ 1 states: How are risk weights to be determined when external ratings assigned by credit rating agencies differ and when there are no external ratings available? Consistent with the treatment of external ratings under the standardised approach to credit risk (see CRE21.10 and CRE21.11), if there are two ratings that map into different risk weights, the higher risk weight should be applied. If there are three or more ratings with different risk weights, the ratings corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights will be applied. Consistent with the treatment where there are no external ratings under the CVA risk chapter (see MAR50.16), where there are no external ratings or	Noted. The PA has amended the Standard and inserted paragraph 10.3.18. on page 46.

			where external ratings are not recognised within a jurisdiction, banks may, subject to supervisory approval: - for the purpose of assigning delta CSR non-securitisation risk weights, map the internal rating to an external rating, and assign a risk weight corresponding to either "investment grade" or "high yield" in the MAR21.51. - for the purpose of assigning default risk weights under the DRC requirement, map the internal rating to an external rating, and assign a risk weight corresponding to one of the seven external ratings in the table included in MAR22.24; or - apply the risk weights specified in MAR21.53 and MAR22.24 for unrated/non-rated categories. ➢ Industry recommends that the Standard be aligned to the Basel text and allow for similar treatment	
34	BASA	10.3.23	The level of risk/probability of default is recognized in the application of different risk weights based on credit rating for the default risk charge in the Standardized Approach. Should the same treatment be applied to both domestic currency and foreign currency issuer risk positions it is implied that the same level of default risk is present, irrespective of currency of issuance. In	National discretion is applied for the South African sovereign and not for all sovereigns. IMA uses probability of default – floor of 3 basis points. This will be retained based on the current market scenarios. An enabling provision has been captured to permit the Authority to determine another floor based on an assessment of a specific bank's application.

			turn this also implies that for example a long position in a USD sovereign bond can be hedged for default risk using a short ZAR sovereign bond. The default risk profile of a sovereign is not the same across foreign and domestic currency as a sovereign can selectively default in different currencies which is not true for corporates. Not recognizing this difference in risk profile means that the capital treatment would not be aligned to the economical treatment of these risks for internal market risk purposes and recognize hedging that would not be considered appropriate. Section 10.3.23 appears to build in a clear alignment between the treatment of national discretion of sovereign risk for FRTB Standardised Approach default risk charge and the Credit Risk treatment. This alignment is supported, and it is proposed that it is further extended to the treatment of sovereign risk under the IMA DRC model. ➢ Industry recommends national discretion to use the zero-risk weight for sovereign bonds in domestic currency in the Standardized Approach Default Risk calculation is implemented. It is further proposed to include equivalent treatment for any sovereign credit issued in any sovereign's domestic currency.	

			❖ Industry wishes to note that the outcome will have significant system change implications and will require sufficient time to implement	
35		10.4.	➢ Industry notes that the term DRCSEC should read DRC_{SEC} with the correct use of the sub script font.	Noted. The prudential standard has been amended accordingly.
36		10.2.2	➢ Industry notes that the formula for the DRC requirement has been duplicated in this section.	Noted. The duplicated formula was removed.
37	BASA	10.3.4/10.3.9	Section 10.3.4 specify that "*For traded non-securitisation credit and equity derivatives, JTD risk positions by individual constituent issuer legal entity must be determined by applying a look-through approach."* Requiring look through on a name-by-name basis requires operationally intensive and costly processes were banks trade indices that have many constituent names, but where constituents are not hedged on an individual basis. This requirement is different from the treatment of indices in the sensitivity-based method that allows a non-look through approach (10.7.54). Industry gained further guidance from the Large Exposure Framework which	Paragraph 10.3.4 is aligned with MAR 22.5. The Authority note the increased cost implications and refer banks to the statement of need for intended operation and expected impact. However, banks are required to apply the look-through approach. In addition, the unrated approach proposed by the industry only covers 15% of the risk weight and does not sufficiently cover the risk, for example the B-rated and CCC-rated credit quality categories. The Authority has deleted the duplicate paragraph 10.3.9.

			also establishes a look-through approach principle - In addition to the above, LEX30.21 (exposure values of banks investments in transactions to Index positions, securitisations, hedge funds or investment funds) and LEX30.43 allows for a choice in applying the look-through-approach or not given certain requirements. ➢ Industry proposes that banks should be allowed to apply similar logic for DRC on indices that allow to opt to apply no look through, under the same criteria as for the sensitivity-based method (10.7.54). ➢ Industry proposes that the whole index should be treated as an "unrated" exposure when no look-through is applied. This would result in the same value as applying look through and treating each constituent name, with its respective index weighting as unrated, (refer also to treatment of equity funds in 10.3.24). ➢ Industry proposes to remove the duplicate 10.3.9 that already appears in 10.3.4. 6.	
38	BASA	10.7.20	Section 10.7.20 of the Standard specifies the scope of equity delta risk factors which are: • All Equity spot prices and	The Authority does not support this proposal as this may result in a double benefit from a capital perspective. In addition, FAQ 2 for MAR21.12 implies that the inverse scenario involving the equity funding instruments does not qualify for the treatment proposed.

			• All equity repo rates. This definition of scope of equity repo rates does not acknowledge the fact that the funding of equities and therefore the calculation of the repo rate sensitivity is primarily driven by the way the market is funded. Equity funding can also be based on a funding curve that is interest rate sensitive rather than equity sensitive and this will then mean that GIRR risk weightings will apply. The stock borrow market is primarily overnight stock borrow with very limited term deals. Therefore, estimating the sensitivity to equity funding can be either an equity repo sensitivity or a GIRR sensitivity. ➢ Industry recommends that the regulations recognize the difference in funding and allow for the treatment of equity funding sensitivities to be aligned to market practice and be recognized by either applying GIRR risk weights or equity repo rates as applicable.	
39	BASA	10.9.1 and 10.12.1	Sections 10.9.1 and 10.12.1 of the Prudential Standards specifies the sectors assigned to buckets for CSR delta sensitivities and Equity Delta sensitivities respectively.	Paragraphs 10.9.1 and 10.12.1 are aligned to MAR 22.51 and 21.72. The real estate sector is ranked differently for specific risks (e.g. equity and credit risks) and it is not feasible to reclassify the sector to ensure consistent treatment as this will not cater for the actual risk. The technology sector is also classified differently based on

			There appears to be an inconsistent treatment of the Real Estate sector between the two sections. A review of several main sector classifications (BICS, GICS, ICB, ISIC, NACE, NAICS, SIC) showed that Real Estate is treated in one of the following ways. - No separate Real Estate sector, with entities classified as financials, or a newly introduced sector with entities previously classified as financials. - In most cases the sub sectors Mortgage REITs, Real Estate Credit and Trusts are still classified as financials, even if a real estate sector exists. - Only one classification rule set had a clear real estate sector with all REITs classified as real estate. ❖ It is clear there is a very close relationship between real estate and financials and REITs are generally considered financials. Given also that financials and real estate are classified in the same bucket for equities, industry recommends that real estate, or any subcategory thereof, is classified in the same regulatory bucket as financials for credit products.	the risk type (i.e. it is classified alongside ‘financials’ in equity and 'telecommunications’ under credit risk).

			❖ While the Equity bucket classification includes the real estate sector alongside financials in buckets 4 and 8, the CSR delta buckets do not apply the same assignment, implying that the relevant bucket for the Real Estate sector as per 10.9.1 would be bucket 11 (“Other Sector”)? Industry recommends that that the Standard includes clarification on the treatment of the Real Estate sector for CSR and align to the Equity classification.	
40	BASA	MAR 21.5 (2)(e) GIRR, FX Curvature RW	Should the FX and GIRR Curvature value for RW k (Curvature) as specified in MAR 21.5 (2)(e) incorporate the 1/SQRT(2) rule applied in the FX and GIRR Delta Calculations for the specified currency pairs and specified currencies respectively? ➢ The delta RW should be interpreted as being the risk weight applied to the Delta calculation, that is, the risk weight following division by sqrt (2).	Yes, the interpretation is correct. Refer to paragraph 10.13.1 (previously 10.16.1) of the Prudential Standard for curvature risk which refers back to the square root dispensation for FX and GIRR applied in delta risk.
41	BASA	MAR 21.45, 21.99 GIRR Curvature by	Should the GIRR Curvature be calculated by performing a parallel shift for all risk-free yield curves simultaneously per bucket (i.e., per Currency) or by performing a parallel shift for each risk-free yield curve	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.

		Curve/Currency	separately and then aggregating per bucket (i.e., per Currency)? If the second option, would the correct correlation (rho kl) to square be 99.9%, as per MAR 21.45 ➢ While there are multiple interest rate curves per currency, MAR 21.8(5)(a) defines GIRR Curvature as having one risk-free yield curve per currency. It also gives the example that Eonia, 3m Euribor and 6m Euribor must be shifted 'at the same time in order to compute the euro-relevant risk-free yield curve curvature risk capital requirement'. This suggests that within a bucket (currency), curves should be shifted concurrently, summing CVR+'s and CVR- 's per curve, resulting in one CVR+ and one CVR- per bucket (rather than one of each per curve in each currency). This also means that the Kb+ and Kb- terms simplify into max (CVR+,0) and max (CVR-,0) respectively. This means that there is no rho kl of 99.9% as per MAR 21.45 required for aggregation. A useful source on this point can be found at https://www.clarusft.com/frtb-curvature-risk-charge.	MAR 21.5(3) – correlation parameter must be used. There is no situation where the correlation parameter falls away in the Kb formula. We do not have one CVR value per bucket or per curve. CVR is aggregated per risk factor k within a bucket.

42	BASA	MAR 21.100, 21.101 Curvature Correlations	When determining curvature High and Low correlations, should a bank square the base correlation and then apply the 1.25 or 0.75 multiplier, or apply the multiplier before squaring. MAR 21.6 introduces the High/Low correlations, and it describes that one should first determine the correlation per MAR 21.39 - MAR 21.101 and thereafter to scalar multiply by 1.25 or 0.75 (or 2*corr -100%, whichever is larger).	Apply MAR 21.101 first and then apply MAR21.6 (i.e. square and then apply the multiplier in terms of the formular in MAR 21.6).
43	BASA	MAR23.7	For RRAO, the regulations are unclear on whether you can offset a back-to-back trade where all economics are identical other than the size (notional of the range). - FAQ1 under MAR23.7 states that hedges may be excluded for RRAO only if the hedges exactly match the trade. ➢ Our interpretation is that you can offset in this case. E.g., client trades a notional of 10, 5 is hedged externally with a client (all economics are identical – strike, maturity, etc.) Partial nominal hedges will be treated as that are fully matched (i.e., we can split into pro-rata two trades) as effective under RRAO as well.	Paragraph 10.17.6 captures MAR 23.7. The Authority disagrees with the industry's interpretation which seems not to apply the 'back-to-back trade' (100% hedge, exactly matching) concept correctly. MAR 23.7 Extract: "In cases where a transaction **exactly** matches with **a** third-party transaction (i.e. a back-to-back transaction), the instruments used in both transactions must be excluded from the RRAO capital requirement. ."In cases where a transaction **exactly** matches with **a** third-party transaction (i.e. a back-to-back transaction), the instruments used in both transactions must be excluded from the RRAO capital requirement." The extract above applies singularity to the initial transaction and the third-party transaction that must be an exact match. As such, **all** economics of trade 1 **must** exactly match **all** economics of trade 2.

44	BASA	MAR21.14 CMA currency treatment	➢ Consensus for now is that there is no exchange control imposed on CMA currencies and that CMA currencies should be treated as risk free same as ZAR for FX risk. Please note this does not mean offset with ZAR, but rather ZAR and all CMA currencies can be filtered out for FX Delta, vega and curvature.	Noted. The current practice is for the Authority to treat such exposures as part of the supervisory process and to advise banks with such exposures on a bilateral case-by-case basis based on: (i) the specific jurisdiction from which the CMA exposure emanates; and (ii) the relative materiality of the exposure within a trading desk.
45	BASA	MAR 21.51/2.53 Treatment of CSR	With reference to the BASA letter to the Authority dated 16 September 2020 on the topic Prudential Document on Sovereign Credit Risk: When capitalising sovereign credit risk, the industry interprets that the FRTB regulations (based on Basel text) have the intention to capitalize sovereign credit spread risk (CSR) under the sensitivities-based method where sovereign risk is issued in a currency that is not controlled by that country. Examples would include: • A South African sovereign bond issued in a currency other than ZAR. • An EU country issuing sovereign bonds in EUR. This being further supported by the fact that: - the calibration of a 200bps risk weight is calibrated to the sovereign	In this regard, on 16 September 2020, BASA stated the following: Given the additional insight obtained through industry discussion and establishing that this treatment aligns to the common treatment of sovereign risk in the industry's front office and risk models, the industry is comfortable that the topic related to CSR capital for sovereign risk be closed and removed from the submission mentioned above. Please refer to the latest draft of the credit risk framework.

			market in non-ZAR and the same risk weighting cannot apply to a ZAR and non-ZAR instrument that have vastly different risk profiles, If this was the case it would mean that a long sovereign non-ZAR position can be fully hedge by a short ZAR position which will create opportunity for capital arbitrage as it will result in an economically unhedged position with no capital. - sovereign yield curves included in the internal model approach do not include a spread for credit risk (which would need to be considered a non-modellable risk factor if this was the case) ➢	
46	BASA	MAR21.8(2) and MAR21.17	• MAR21.8(2) specifies GIRR delta risk factors also include a flat curve of market-implied inflation rates and that inflation rate risk is considered in addition to the sensitivity to interest rates from the same instrument. • MAR 21.17 the bank must determine sensitivity based on instrument prices or pricing models that an independent risk control unit within a bank uses to report market risks or actual profits and losses (PnL) to senior management. Banks must use zero rate or market rate sensitivities consistent with the pricing models.	MAR21.8 is captured under 10.7 (10.7.6 – MAR 21.8(2)) of the Prudential Standard. MAR 21.17 is captured under 10.7.39 of the Prudential Standard. I. Refer to paragraph 10.7.39 of the Prudential Standard which deals with use of alternative formulations of sensitivities based on pricing models that the bank's independent risk control unit uses to report market risks or actual profits and losses to senior management. The industry must be able to demonstrate to the Authority that the alternative formulations of sensitivities based on pricing models yields results very close to the prescribed formulations. II. Noted. The Authority has amended paragraph 10.7.39 to make the requirement clearer.

			➢ *Industry interpretation* I. Considering MAR 21.17, a Bank may choose to calculate inflation rate risk by considering either the real rate curve or breakeven inflation curve in line with the method the Bank uses for market risk or PnL management as well as alignment to pricing models. II. In cases where a risk factor is derived from or inter-related with another risk factor under observation, the recalibration effects on the sensitivity of the derived/ inter-related risk factor should be considered, to avoid any inaccurate or undue effects when a recalibration is not performed.	
INTERNAL MODELS APPROACH				
47	BASA	11.1	The Standard is not referencing the BIS "*three-prong approach*" as outlined in MAR 30.4. Section 11.1 would benefit in considering explicitly adding it to the Standard. It's implied by the text, but: ➢ Industry would request that the 3 stages of selection and approval be added:	The Authority has drafted the Prudential Standard to concisely and methodologically capture the approval process and considerations for approval. The Authority does not see the need or benefit of explicitly specifying the three-pronged approach.

			1) Bank-wide internal risk management model meets qualitative evaluation criteria, 2) IMA desk nomination, 3) IMA desk approval, which in turns determine the risk factors in scope for IMA. Especially point 3 and linked to comments for Section 11.1.4 & 11.1.5 below. ➢ Industry recommend that the PA adds a similar three-prong approach to the Standard	
48	BASA	11.1.4 & 11.1.5	As part of a banks IMA application, a bank is required to provide a list of all risk factors for IMA. Read jointly with 11.1.5 this raises a concern that the burden of proof for risk factor eligibility is moved from the applying bank to the Authority and gives the impression the Authority will do its own eligibility tests to approve the IMA eligible risk factors explicitly. It is expected to make the process more complicated and is not aligned to the original Basel text three-prong approach (see comment under 11.1). The Basel framework was designed to have risk factors moving between SA and IMA based on desk level eligibility without supervisor assessment. This	Noted. Paragraph 11.1.4 and 11.15 have been reworded to align to the Basel text.

			might unnecessarily delay the correct capitalisation for IMA risk factors and make the framework more tedious to maintain. Banks could have 1000's of different risk factors that will be required to be explicitly noted, presented as part of applications and approval letters. For example, it's unclear what would happen with an IMA approved desk that starts trading a new risk factor that meets all data requirements. ➢ Industry request the Authority provide clarity on whether this is required for the initial application or on an on-going basis. ➢ Industry request that the Authority consider removing 11.1.5 and aligning it to the Basel text three-prong approach.	
49	BASA	11.4.1(d)	*"On request, the banks must make available to the PA the results as well as the underlying inputs to ES calculations and details of the PLA exercise…"* • *Basel (MAR 30.18(4)): "On request, a bank should make available to its supervisory authority and/or to its external auditors the results…"* ➢ Industry notes an omission of external audit in the Standard as compared to MAR 30.18(4) in the	Noted. The paragraph has been amended to include 'and/or its external auditors'.

			Basel text and request the Authority, to confirm that this omission was intentional.	
50	BASA	11.6.2	*"For exchange rate risk, the trading desk risk management model must incorporate risk factors that correspond to the individual currencies in which the bank's positions are denominated that are different from the bank's reporting currency."* ➢ Industry note that the second part of Basel text MAR 31.8 appears to be missing in the Standard; *"A bank must utilise risk factors that correspond to the exchange rate between the bank's reporting currency and each foreign currency in which the bank has a significant exposure."* ➢ Industry request that the Authority clarify why this additional wording was removed.	Noted. The paragraph has been amended to fully align with the Basel text.
51	BASA	11.7.1	The industry would like to propose that the Authority consider including additional wording that would allow banks to still include selected risk factors that fail RFET in their ES model at the bank's discretion given hedging strategies. This discretion should be dependent on risk factors still being adequately capitalised as part of SES. This will avoid breaking hedges or basis	Only risk factors that pass the RFET will be allowed in the ES model.

			positions (e.g., bond fails, and swap passes RFET), which would result in grossing up of capital requirements.	
52	BASA	11.7.5	The Basel text provides additional clarity on what is deemed a real price by expanding MAR 31.12 through MAR 31.12 FAQ1 and FAQ2. Industry has interpreted MAR 31.12 FAQ2, that "non-negligible" in terms of transaction sizes is defined as a transaction conducted in the ordinary course of business and not for the sole purpose of creating modellability in the risk factor. ➢ Industry requests that MAR 31.12 FAQ1 and FAQ2 be added as footnotes to section 11.7.5 in the Standard. ➢ Industry would request the Authority further clarify non-negligible by adding that it means "transaction sizes that would be conducted in the ordinary course of business and not for the sole purpose of creating modellability in the risk factor"	Noted. The definition of 'committed quotes' has been added to the definitions section of the Prudential Standard. FAQ 2 has been added as a footnote to 'real price'. The Authority is of the view that 'non-negligible' must be defined by the respective banks and the Authority will consider that definitions applied by banks in respect of its supervisory approach.
53	BASA	11.8.1 (b) (iv)	➢ Industry would recommend adding element of footnote [6] in MAR 31.16 "*For options markets where alternative definitions of moneyness are standard, banks shall convert the regulatory delta buckets to the market-standard*	Noted. The paragraph has been amended to include footnote 6 from MAR 31.16 to address the comment.

			convention using their own approved pricing models."	
54	BASA	11.11.1 (c)	*(11.11.1 (c)): "Exceptions for actual losses are counted additionally to exceptions for hypothetical losses"* • *Basel text MAR(32.5 (1)): "…exceptions for actual losses are counted separately from exceptions for hypothetical losses; the overall number of exceptions is the greater of these two amounts."* ➢ Industry would request that the Authority changes the wording to align with the Basel text in MAR 32.5 (1). ➢	Noted. The paragraph has been amended accordingly.
55	BASA	11.11.4 (d)	*(11.11.4 (d)): "if any given trading desk experiences in the most recent 12-month period a number of exceptions equal or higher than"* • *Basel text MAR (32.19): "If any given trading desk experiences either more than 12 exceptions at the 99th percentile or 30 exceptions at the 97.5th percentile in the most recent 12-month period, "* ➢ Industry notes that the Standard includes "equal to", whereas the Basel text only states "more than". This seems to be an error.	Noted. The paragraph has been amended to remove 'equal or'.

			➢ Industry recommends aligning to Basel text.	
56	BASA	11.11.4 (d)	• *Basel Text MAR (32.19) Footnote 1 "Desks with exposure to issuer default risk must pass a two-stage approval process. First, the market risk model must pass backtesting and PLA. Conditional on approval of the market risk model, the desk may then apply for approval to model default risk. Desks that fail either test must be capitalised under the standardised approach."* ❖ Industry note that this footnote was omitted from the Standards. ➢ Industry requests the Authority consider adding a similar note to the Standard, in addition to being covered in the Application Pack guidance	Noted. The footnote has been included in the draft Prudential Standard as a new paragraph.
57	BASA	11.18.1 (h)(i)(ii)	*"The identified reduced set of risk factors must be able to explain a minimum of 75% of the variation of the full ES model"* • *Basel text MAR(33.5 (2)(b)): "The identified reduced set of risk factors must be able to explain a minimum of 75% of the variation of the full ES model (i.e., the ES of the reduced set of risk factors should be at least equal to 75% of the fully*	Noted. The paragraph has been amended to include the time frame.

			specified ES model on average measured over the preceding 12-week period).” Industry recommends that a time frame is added to the Standards like the Basel text.	
58	BASA	11.18.2 (a)	*“the 12-month period containing the most severe loss since, at least, to 2007”.* ➢ Industry recommends rewording the requirement to align with the Basel text MAR(33.7) *“For measures based on stressed observations (ESR, S), banks must identify the 12-month period of stress over the observation horizon in which the portfolio experiences the largest loss”.* ❖ The key requirements should be a stress period, but the stress period should contain the most severe loss. ➢ Industry recommends rewording the observation horizon to span back to and include 2007. *“The observation horizon for determining the most stressful 12 months must, at a minimum, span back to and include 2007. ”*	Noted. The paragraph has been amended to align with the Basel text.
59	BASA	11.18.3(a)	Industry notes that Basel text (MAR 33.4) provides a generic formula for scaling all ES calculations, whereas the	Noted. The Prudential Standard has been amended to include the generic formula.

			Standard text makes it specific to a reduced set of risk factors under stressed conditions. ➢ Industry request that the Authority generalizes the ES function and for this regulation retain the exact Basel text.	
60	BASA	11.18.3 (a) (iv)	*"EST(P,j) is the ES at horizon T of a portfolio with positions P = (pi) with respect to shocks to the specific risk factors Q(pi , j) within the reduced set of risk factors established in11.18.1(i)), with all other risk factors in the reduced sect of risk factors held constant".* ➢ Industry believes "*specific*" risk factors implies unsystematic risk. ➢ Industry would recommend *"for each position pi in the subset of"* as Basel MAR(33.4) states in place of *"to the specific".* • Typo in Standard Text.	Noted. The paragraph has been amended accordingly.
61	BASA	11.18.	❖ Industry notes that the following footnote from the Basel text is missing from the Standard text: - "*USD/EUR, USD/JPY, USD/GBP, USD/AUD, USD/CAD, USD/CHF, USD/MXN, USD/CNY, USD/NZD, USD/RUB, USD/HKD, USD/SGD, USD/TRY, USD/KRW,*	Noted. The footnote has been added to the Prudential Standard.

			USD/SEK, USD/ZAR, USD/INR, USD/NOK, USD/BRL, EUR/JPY, EUR/GBP, EUR/CHF and JPY/AUD. Currency pairs forming first-order crosses across these specified currency pairs are also subject to the same liquidity horizon." ➢ Industry requests the Authority to consider adding a similar note to the Standard	
62	BASA	11.20.1	The draft Standard 11.20.1 (Basel text MAR 33.16) states that a stress scenario for an NMRF needs to be calibrated so that it is at least as prudent as the ES calibration. ➢ Industry requires clarity on whether this ES calculation should be adjusted by the liquidity horizons specified in the regulations to be applied for modelled risk factors, or if this is the non-liquidity adjusted expected shortfall. •	The liquidity horizons for non-modellable risk factors must at least be the same as the liquidity horizons specified in the Prudential Standard for modelled risk factors.
66	BASA	11.21.19	*"The validation of a DRC model represents an ongoing process in which the Prudential Authority and firms jointly determine the exact set of validation procedures to be employed."* Industry recommend that the Authority provide some expectation in the	Refer to paragraphs 11.21.17, 11.21.18 and 11.21.20 which provide clarity on the expectations for DRC model validations. The Authority is of the view that it is not necessary to provide further expectations.

			Standard, for validation requirements of the DRC model.	
64	BASA	11.23.3	➢ Industry recommends adding additional wording to clearly note *"The capital surcharge is floored at zero."* as shown in MAR (33.45) ❖ MAR 33.45 noted " *To determine the aggregated capital charges, positions in all of the trading desks in the PLA green zone or amber zone are taken into account. The capital surcharge is floored at zero*."	The Authority is of the view that this is not necessary as the formula infers that the capital surcharge is floored at zero.
65	BASA	11.2.7, 11.2.8, 11.2.9 and 11.2.10	*"11.2.7 A banks' distinct unit that is separate from the unit that designs and implements the internal models must conduct the initial and ongoing validation of the IMA. 11.2.8 The model validation unit must validate all internal models used for purposes of the IMA on at least an annual basis. 86 11.2.9 The Board and senior management of the bank must be actively involved in the risk control process and must regard risk control as an essential aspect of the business to which significant resources need to be devoted. 11.2.10 The daily reports prepared by the independent risk control unit must be reviewed by management with sufficient seniority and authority to enforce both reductions of positions taken by individual traders and*	Noted. The duplicate paragraphs have been deleted.

			reductions in banks' overall risk exposure." *Industry believes that Articles 11.2.7 to 11.2.10 duplicates Articles 11.2.3 to 11.2.6 and should be removed.*	
66	BASA	11.2.11 (e)	*"A routine and rigorous programme of stress testing must be in place, must be reviewed at least monthly by senior management and must be considered for-* *(i) internal assessment of capital adequacy; and* *(ii) trading book's policies and limits set by the banks' management and its board."* ➢ Industry would recommend making this a separate regulatory article. ➢ This is a separate requirement and is not aligned with the rest of the points noted under 11.2.11. ➢ Ref: MAR 30.11	Noted. The paragraphs have been separated and aligned to the Basel text.
67	BASA	11.2.12	*"Where stress tests reveal particular vulnerability to a given set of circumstances, banks must take prompt action to mitigate those risks appropriately, including hedging against that outcome, reducing the size of the banks' exposures or increasing capital)."* ➢ Industry believes that this article aligns with MAR 30.12 but is	Noted and amended accordingly.

			missing an open bracket and should present the last section of the article as an example. ➢ Basel: *"(e.g., by hedging against that outcome, reducing the size of the bank's exposures or increasing capital)."*	
68	BASA	11.2.16	*"An independent review of the risk management system must be carried out regularly in the banks' own internal auditing ~~external process~~ or external audit, including both the activities of the business trading units and of the independent risk control unit.* ➢ Industry recommends rewording is required to avoid confusion, note the review can be done by both internal and external audit. Please see MAR 30.16	Noted. The paragraph has been amended accordingly.
69	BASA	11.3.3 (e)	*"The ability to account for particular structural features that may arise by using hypothetical portfolios."* ➢ Industry believes that there is a duplication with article 11.3.4 and would recommend merging into one article.	Noted. The paragraphs have been merged.
	BASA	11.3.4	*"Banks must use hypothetical portfolios to ensure that internal models are able to account for particular structural features that may arise. Where the data*	Noted. The cross-reference has been added.

			history for some instruments does not meet the quantitative standards detailed in xxxx and the banks map these positions to proxies, the banks must ensure that the proxies produce conservative results under relevant market scenarios, with sufficient consideration given to ensuring-" ➢ Industry notes a missing reference relating to quantitative standards for risk factors (marked in red). In addition, this paragraph seems more of a duplication of 11.3.3(e). It is recommended that this paragraph rather be consolidated with the point above.	See response to comment 69 above with respect to paragraph 11.3.3(e).
70	BASA	11.6.1 (f) (i)	*"The trading desk risk management model must model the yield curve by estimating forward rates from zero coupon yields or using another generally accepted market practice."* ➢ Industry would request rewording and aligning article to MAR 31.6 (1). ❖ The example provide by the BIS was written into the regulations. BIS regulations simply state that "*The trading desk risk management model must model the yield curve using one of a number of generally accepted approaches".*	Noted. The paragraph has been amended accordingly.

71	BASA	11.6.1 (f) (v)	*"The trading desk risk management model must incorporate separate risk factors to capture CSR A variety of approaches may be used to reflect the CSR arising from less-than".* ➢ Industry would recommend promoting the sub article as it does not form part of GIRR and rest of the 11.6.1 (f) article. (ref: MAR 31.7. Also missing full stop.)	Noted. The paragraph has been amended accordingly.
72	BASA	11.7.2 / 11.7.5 (d) (iii)	*"Collateral reconciliations or valuations cannot be considered real prices to meet the RFET."* ➢ Industry notes that the original Basel text appeared to have been added to third-party vendor article section in error. ➢ This does not appear that it relates and aligns with MAR 31.12	Noted. The sentence has been moved to the next paragraph.
73	BASA	11.7.5	➢ Industry recommends including the definition for "committed quote", as presented by the Basel text in MAR31.12 FAQ 1, "*A committed quote is a price from an arm's length provider at which the provider of the quote must buy or sell the financial instrument.*"	Noted. See response to comment 52 above.
74	BASA	11.11.3 (b)(ii)	➢ Industry notes an incorrect table reference in Standard. This	Noted. The cross-reference to the table has been amended.

			paragraph refers to Table 10 in the PA regs, it should instead refer to Table 12. ➢	
75	BASA	11.13.1(f)	➢ Industry believes this section is duplicated given the preceding sections (a), (c), and could be removed? ➢	Noted. The paragraph has been deleted. In addition, paragraph (c) has been reworded to align with the Basel text.
76	BASA	11.14	➢ Industry request that the Authority consider reviewing the structure of this section, so that article 11.14.3 is at the same level as Section 11.15. - "Process for determining the Spearman correlation metric" vs "Process for determining Kolmogorov-Smirnov test metrics" •	Noted. Paragraph 11.15 has been adjusted to paragraph 11.14.4 under the main heading of 11.14 PLA test metrics.
77	BASA	11.14.3 (c)	• Minor typesetting error of standard deviation symbols identified.	Noted and amended accordingly.
78	BASA	11.16.1	Incorrect referencing of table (as table 11 instead of Table 13). •	Noted and amended accordingly.
79	BASA	11.18.1 (d)	*"Banks will have discretion to recognize empirical correlations within broad regulatory risk factor classes (interest rate risk, equity risk, FX risk,"* ➢ Minor typo to be corrected in the Standard.	Noted and amended accordingly.
80	BASA	11.18.1 (h)	*"The ES measure must replicate an ES outcome that would be generated on the*	Noted. The paragraph has been amended accordingly.

			bank's current portfolio if the relevant risk factors were experiencing a period of stress. To this end an assessment across all relevant risk factors must be done, which will capture stressed correlation measures." ➢ Industry recommends aligning to Basel text MAR33.5 (1), i.e. - "This is a joint assessment" implying ES measure must replicate and ES outcome not per risk factor but across all.	
81	BASA	11.18 and 11.19	➢ Multiple incorrect subscripts.	Noted and amended accordingly.
82	BASA	11.19.3	*"Methodology for re-scaling described in paragraph 11.20.3 below, must be used, after calculating the ES for an initial base period of 10 days (T)."* ➢ Incorrect referencing, should be above in 11.18.2 •	Noted and amended accordingly.
83	BASA	11.20.1	*"Capital requirements for each non-modellable risk factor (NMRF) are to be determined using a stress scenario that is calibrated to be at least as prudent as the ES calibration."* • *Basel text "Capital requirements for each non-modellable risk factor (NMRF) are to be determined using a stress scenario that is calibrated to be at least as prudent as the ES*	Noted and amended accordingly.

			calibration used for modelled risks (i.e., a loss calibrated to a 97.5% confidence threshold over a period of stress).” ➢ Industry recommends adding the additional wording (marked in red) to the Standard.	
84	BASA	11.20.5 (c)	*“SESNM,k is the stress scenario capital requirement for non-modellable risk k from all the remaining K risk factors; Correlation or diversification effects between other non-idiosyncratic NMRFs are recognised through Rh, which is equal to 0.6.”* Typo in Standard with respect to Rho.	Noted and amended accordingly.
85	BASA	11.21.3 (b)	*“Default correlations must be based on credit spreads or on listed equity prices. Correlations must be based on data covering a period of 10 years that includes a period of stress as defined in paragraph 10.20.2 above and based on a one-year liquidity horizon.”* ➢ Standard has an incorrect paragraph reference.	Noted and amended accordingly.
86	BASA	11.21.9 to 11.21.10	Text numbering/grouping of rules seems incorrect and misleading compared to the BIS text. ➢ Industry recommends that the first two sentences under 11.21.10	Noted and amended accordingly.

			needs to be added as points (d) and (e) to 11.21.9.	
87	BASA	11.21.17 to 11.21.19	➢ Industry recommends adding these sections as sub point to 11.21.16 to align with Basel text.	Noted and amended accordingly.
88	BASA	11.21.23	➢ Missing footnote on Standard on LGD ❖ *Basel text footnote:* "*LGD should be interpreted in this context as 1 – recovery rate."* -	Noted and amended accordingly.
89	BASA	11.22	*"The regulatory capital requirement associated with trading desks that are either out-of-scope for model approval or that have been deemed ineligible to use an internal model (CU) is to be calculated by aggregating all such risks and applying the standardised approach."* ➢ Notation needs to be corrected in the Standard. -	Noted and amended accordingly.
90	BASA	11.23.2	➢ Incorrect subscript mc and not m_c	Noted and amended accordingly
91	BASA	11.23.4 (b)	➢ Incorrect subscripts "ER, C and ER,S" rather than "$E_{R,C}$ and $E_{R,S}$" -	Noted and amended accordingly
92	BASA	MAR33.16 SES	In calculating the capital requirement for NMRF (MAR33.16), the Stressed scenario needs to be calibrated to be at	At face value, the Authority agrees with the calculation methodology

			least as prudent as the ES calibration used (97.5%): 1.Does a common 12-month period of stress need to be calculated for each risk class or each risk factor when calculating stressed expected shortfall 2.Can you use a single scenario date for all NMRFs within a risk class or does the scenario that meets the 97.5% >= SES calculation need to be performed for each NMRF (or bucket under the regulatory bucketing approach) separately 3.Can you use the scenario identified for the entire quarter or does the 97.5% ES >= SES assessment need to be done daily? ➢ MAR33.16 requires that the common 12-month period of stress needs to be calculated for all NMRFs in the same risk class. This implies that the NMRFs need to be grouped by risk class and then the calculation of worst historical period is performed. ➢ MAR33.7 (ES stress period assessment) requires that the 12-month period of stress be updated at least quarterly or when there is a material change to the risk factors. There is no similar requirement for SES however banks believe it to be prudent to conduct this at least quarterly	

			➢ Once the period of stress is identified, the regulations are not prescriptive on how the SES calculation should be performed, only that the stress scenario used should be at least as prudent as the ES calibration used for modellable risk factors. The following procedure is deemed sufficient: a. Calculate the period of stress per risk class for NMRFs on a non-liquidity adjusted basis b. Calculate the 97.5% ES for the risk class c. Identify the scenario for the risk class that results in a loss for the risk class that is greater or equal to 97.5% ES d. Use this scenario date to calculate the SES for each NMRF - The scenario that results in the SES calculation being at least as prudent as the 97.5% ES should be updated at least quarterly and can be used for all NMRFs in the risk class (i.e. a separate scenario does not need to be identified per NMRF)	
REGULATORY ACTION				
			No comments received	Noted.
REPORTING REQUIREMENTS				
			No comments received	Noted.

TRANSITIONAL ARRANGEMENTS				
			No comments received	Noted.
GENERAL COMMENTS ON THE PRUDENTIAL STANDARD				
93	Grindrod Bank	Whole Standard	No comment	Noted.
94	Discovery Bank		Discovery Bank currently does not have a trading book and approval was obtained for the FRTB-SSA for implementation on 1 Jan 2024.	Noted.
95	Habib Overseas Bank	Whole Standard	No further comments	Noted.
96	HBZ Bank		Appreciate the clarifications and enhancements that is expected to result by the proposed standard. The Bank is of the view that the same addresses many of the shortcomings previously identified on the market risk framework	Noted.
97	HBZ Bank		The standard clarifies the scope of positions subject to the market risk framework, including the treatment of equity investments in funds and the treatment of foreign currency positions	Noted.
98	HBZ Bank		It is noted that whilst impact to the Bank in particular is expected to be nominal given its vanilla offerings, the amended framework is estimated to increase market risk capital requirements across the industry	Noted

99	BASA	Shifting of dividends for curvature calculation	When shifting the spot price with a significant amount, as in the case of curvature calculation, without shifting dividends then there is a possibility of negative forward rates. There does not seem to be a standard assumption to apply in the regulations. Possible ways to treat this include 1. Shift dividend by the same percentage as spot 2. Assume any large move such a 55% etc would cause the dividend assumption to go to zero. 3. Don't shift dividends, but somehow floor the forward price if it goes negative. Also, in this case how would you calculate the delta that needs to be deducted from the PnL up or down if you shifted dividends? Would you include a dividend shift in the delta or not and would this then differ from the delta used for calculating the delta risk capital charge?" ➢ As no standard assumption is proposed in the regulations to shift dividends when calculating curvature, the industry recommends that treatment of dividends for curvature risk will depend on each bank's own implementation and system abilities to avoid problematic values due to negative forward	There are no amendments needed for the Standard. The Standard is aligned with the Basel Framework. Further work will be done and, if necessary, third-tier guidance will be issued. The Basel Framework does not make any mention of a floor for curvature risk.

			prices. No industry standard is proposed or required.	
100	BASA	FX risk on investment in and loans to subsidiaries	"FRTB is silent on whether the total definition of net open FX currency risk arising from the net investment in subsidiaries and loans to subsidiaries (which eliminate on consolidation) should be capitalised under the MR framework, particularly if the two entities are capitalised under different frameworks. Response: The Banks Act of 1990, section 28(7)(d)(ii)(F)(ix) provides guidance that such exposure can be excluded. Whilst FRTB is silent on this matter, industry is of the opinion that the same intention applies and that the FX risk arising from the net investment in and loans to subsidiaries (which are in the banking book) can be excluded for the purposes of calculating the market risk capital requirement." ➢ Interpretation of the net open position for FX risk consistent with current regs as per Regulation 28(7)(d)(ii). FRTB does not seem to go into much detail about what is included in the net open position, so we just assumed the status quo on this except for removing gold. Based on the regs:' ***(ix) the bank may exclude from its relevant calculations of minimum capital***	This will be considered by the Authority and, if necessary, third-tier instruments will be issued.

			and reserve fund relating to foreign exchange risk items such as investment in non-consolidated subsidiaries, which investment constitute impairments against the banks' capital and reserve fund"	
101		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	Noted. MAR 32.23 has been incorporated in the Prudential Standard.

			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. 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.	

END