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South African Reserve Bank
Prudential Authority

Ref.: 15/8/1/2

G3/2023

To: All banks, branches of foreign institutions, controlling companies, eligible institutions, and auditors of banks or controlling companies

Guidance Note issued in terms of section 6(5) of the Banks Act 94 of 1990

Proposed implementation dates in respect of specified regulatory reforms

<u>Executive summary</u>

Following the global financial crisis that commenced in 2007, various international standard-setting bodies agreed to put in place, among others, comprehensive measures, policies, regulations, and reforms to promote financial stability as well as the safety and soundness of individual financial institutions.

In this regard, the Basel Committee on Banking Supervision (Basel Committee) has issued various new or amended frameworks, standards, or requirements for implementation by member jurisdictions.

During recent years, standard-setting bodies of prudentially regulated institutions have announced comprehensive measures to mitigate the impact that the outbreak of Covid-19 has on preparations by regulators and institutions towards the implementation of the respective new or amended frameworks, standards, or requirements.

In this regard, some countries have confirmed via their respective websites the delayed implementation of selected components of the Basel III post-crisis reforms in their respective jurisdictions.

Based upon, among others, industry requests received, quantitative impact studies, progress by member jurisdictions of the Basel Committee to implement the reforms, regulatory responses to mitigate the impact of Covid-19, and other matters related to implementation complexity, the Prudential Authority (PA) proposes to implement the outstanding regulatory reforms in South Africa on the dates set out in this Guidance Note.

This Guidance Note replaces Guidance Note 4 of 2022 and Guidance Note 8 of 2022.

1. Introduction

1.1 Following the global financial crisis that commenced in 2007, various international standard-setting bodies agreed to put in place, among others, comprehensive measures, policies, regulations, and reforms to promote financial stability as well as the safety and soundness of individual financial institutions.

1.2 In this regard, the Basel Committee has issued, among others-

1.2.1 extensive enhancements to the Basel II framework in 2009, which have subsequently been implemented in South Africa with effect from 1 January 2012;

1.2.2 revisions to the Basel II market risk framework in 2009 and in 2011, which have subsequently been implemented in South Africa with effect from 1 January 2012;

1.2.3 the Basel III capital framework, originally published in December 2010 and updated in June 2011, which has subsequently been implemented in South Africa with effect from 1 January 2013;

1.2.4 the Basel III Liquidity Coverage Ratio framework, originally published in December 2010 and updated in January 2013, which has subsequently been implemented in South Africa with effect from 1 January 2015;

1.2.5 the Basel III Net Stable Funding Ratio framework, originally published in December 2010 and updated in October 2014, which has subsequently been implemented in South Africa with effect from 1 January 2018;

1.2.6 the standardised approach for measuring counterparty credit risk exposures, originally published in March 2014, which has subsequently been implemented in South Africa with effect from 1 January 2021;

1.2.7 a capital standard for bank exposures to central counterparties, originally published in July 2012 and updated in April 2014, which has subsequently been implemented in South Africa with effect from 1 January 2021;

1.2.8 capital requirements for banks' equity investments in funds, originally published in December 2013, which has subsequently been implemented in South Africa with effect from 1 January 2021;

1.2.9 a revised supervisory framework for measuring and controlling large exposures, originally published in April 2014, which has subsequently been implemented in South Africa with effect from 1 April 2022;

1.2.10 the total loss-absorbing capacity (TLAC) holdings standard, originally published in October 2016, which has subsequently been implemented in South Africa with effect from 1 April 2022;

1.2.11 the revised securitisation framework, published in July 2016, and requirements for the capital treatment of simple, transparent and comparable short-term securitisations, published in May 2018, which have subsequently been implemented in South Africa with effect from 1 October 2022; and

1.2.12 the revised standard for Interest Rate Risk in the Banking Book (IRRBB), originally published in April 2016, which has subsequently been implemented in South Africa with effect from 1 January 2023.

1.3 In December 2017, the Basel Committee published the outstanding components of the Basel III post-crisis reform package.[1] The revised Basel framework comprehensively addresses the shortcomings identified in the pre-crisis regulatory framework and provides a regulatory foundation for a resilient banking system that supports the real economy.

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[1] Available online: [Basel III post-crisis reforms]

1.4 During recent years, standard-setting bodies of prudentially regulated institutions announced comprehensive measures to mitigate the impact that the outbreak of Covid-19 had on preparations by regulators and institutions for the implementation of the respective new or amended frameworks, standards, or requirements.

1.5 In this regard, some countries have confirmed via their respective websites the delayed implementation of selected components of the Basel III post-crisis reforms in their respective jurisdictions.

1.6 Based on, among others, industry comments and requests, quantitative impact studies, progress by member jurisdictions of the Basel Committee to implement the reforms, regulatory responses to mitigate the impact of Covid-19, and other matters related to implementation complexity, the PA proposes a revision to the implementation dates of the outstanding regulatory reforms in South Africa as set out in paragraph 2.1 below.

1.7 In addition, on 16 December 2022, the Basel Committee issued a standard that sets out requirements for the prudential treatment of banks' exposures to crypto assets,[2] including tokenised traditional assets, stablecoins, and unbacked crypto assets, for implementation by member jurisdictions from 1 January 2025. The PA proposes to implement the related requirements in South Africa as set out in paragraph 2.1 below.

1.8 This Guidance Note replaces Guidance Note 4 of 2022 and Guidance Note 8 of 2022.

2. Proposed implementation dates

2.1 Based on the aforesaid, it has been decided to propose the following implementation dates for specified regulatory reforms:

Regulatory reform	**Proposed implementation date**
Interest rate risk in the banking book: Disclosure requirements	1 January 2024
Revised standardised approach for credit risk	1 July 2025
Revised internal ratings based approaches for credit risk	1 July 2025
Revised operational risk framework	1 July 2025
Leverage ratio – revised exposure definition	1 July 2025
Minimum capital requirements for market risk	1 July 2025
Revised credit valuation adjustment framework	1 July 2025

[2] Available online: Prudential treatment of banks' exposures to crypto assets

Regulatory reform	Proposed implementation date
Output floor	1 July 2025: 60% 1 January 2026: 65% 1 January 2027: 70% 1 January 2028: 72.5%
Prudential treatment of banks' exposures to crypto assets	1 January 2026

2.2 However, ultimately, amendments to the Regulations relating to Banks are promulgated in terms of section 90 of the Banks Act, 1990, for implementation, only when the National Treasury and the Minister of Finance, as a minimum-

2.2.1 have concluded their own respective processes related to, for example, consideration of any relevant proposed amendments to legislation; and

2.2.2 are satisfied that a sufficiently robust consultation process has been followed in respect of the said proposed amendments to legislation.

2.3 As such, should any of the aforementioned proposed implementation dates need to be revised due to, for example, the nature and extent of comments received and/or the PA's ongoing engagements with all relevant interested persons, including the National Treasury and the Minister of Finance, the PA will accordingly communicate the said revised proposed implementation dates.

2.4 Where applicable, parallel runs will commence at least three months prior to the relevant proposed implementation date, the relevant details of which will also be communicated by the PA in due course.

3. Statement of expected impact

3.1 In order to ensure adequate engagement and that the potential impact, costs, and benefits of proposed amendments to the Regulations or proposed Prudential Standards are duly considered and measured, the preparation of a statement of expected impact forms an integral part of the process of proposing amendments to the Regulations or the issuance of Prudential Standards, with an invitation for all interested persons to submit their comments.

3.2 As part of the aforementioned processes, the PA engages all banks and other relevant persons on the respective reforms, in order to gather the necessary qualitative and quantitative information that the PA requires to determine or assess the potential impact of the proposed amendments to the Regulations or the proposed Prudential Standards, as well as to prepare the aforementioned statement of expected impact.

3.3 All comments received related to the potential impact, costs, and benefits of the proposed amendments to the Regulations or the proposed Prudential Standards, as well as the comments received in respect of the actual proposed amendments to the Regulations or the proposed Prudential Standards, will be published on the website of the PA, unless a respondent specifically requests confidential treatment of such comments.

4. Acknowledgement of receipt

4.1 Kindly ensure that a copy of this guidance note is made available to your institution's independent auditors. The attached acknowledgement of receipt, duly completed and signed by both the Chief Executive Officer of the institution and the said auditors, should be returned to the PA at the earliest convenience of the aforementioned signatories.

Fundi Tshazibana

Fundi Tshazibana
Chief Executive Officer

Date: 17-Jul-2023

Encl. 1

The previous guidance note issued was Guidance Note 2/2023, dated 8 March 2023.