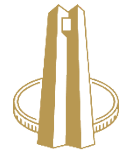


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SOUTH AFRICAN RESERVE BANK
Prudential Authority

Ref.: 15/8/1/3

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

Proposed Directive issued in terms of section 6(6) of the Banks Act 94 of 1990

Operational risk conditions, interpretation, and completion of the form BA 400

Executive summary

The purpose of this proposed Directive is to direct banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') with respect to the conditions, interpretation, and completion of the 6 monthly operational risk form BA 400.

1. Introduction

- 1.1 Regulation 33(2) of the proposed amendments to the Regulations relating to Banks (the proposed amended Regulations) sets out the purpose of form BA 400 with respect to the required amount of capital and reserve funds for operational risk for banks, calculated in terms of the standardised approach.
- 1.2 This proposed directive stipulates the requirements for the interpretation and completion of the form BA 400, as well as specific conditions for the measurement of a bank's exposure to operational risk under the standardised approach.

2. Directive

- 2.1 In accordance with the provisions of section 6(6) of the Banks Act, 1990 banks are hereby directed, as follows:

3. Conditions relating to the loss component

- 3.1 A bank that has not been designated as a domestic systemically important bank (DSIB) and that does not have 10 years of high-quality loss data will not be allowed to use the loss component in the calculation of the bank's required amount of capital and reserve funds for operational risk. In such cases, that bank must apply an internal loss multiplier equal to 1.
- 3.2 In accordance with the requirements specified in regulation 33(4)(c)(i)(C)(ii) of the proposed amended Regulations, the quality of the internal loss data for inclusion in the calculation of the bank's required amount of capital and reserve funds for operational risk must be reviewed by the internal and/or external auditors of the bank at inception and every 2 years after approval has been obtained from the Prudential Authority (PA). The results of the loss data review supporting the initial application must be submitted to the PA in writing on the Application Form: Matters related to the Standardised Approach, attached hereto as Annexure A, 4 months prior to the

implementation date specified in paragraph 7.

- 3.3 A bank approved to use loss data in its calculation must apply a minimum threshold amount of ZAR 350 000 for including a loss event in its data collection and calculation of average annual losses. The PA may amend this threshold amount for banks that fall into buckets 2 and 3 as specified in paragraph 4.1.
- 3.4 As stated in regulation 33(4)(h)(iv) of the proposed amended Regulations, losses can only be excluded from the loss component after being included in the bank's operational risk loss database for a minimum period of 3 years. The relevant loss event to be considered for exclusion shall be larger than 5% of the average total annual losses over a period of 10 years.
- 3.5 If a bank wishes to exclude certain operational loss events that are no longer relevant to the risk profile, a formal written request as set out in the Application Form: Matters related to the Standardised Approach, attached hereto as Annexure A, must be submitted to the PA. Losses may only be excluded from the bank's loss component after written approval has been obtained from the PA.

4. Business indicator buckets

- 4.1 As stated in regulation 33(4)(g)(ii) of the proposed amended Regulations, a bank shall multiply the relevant Business Indicator (BI) with the marginal coefficients α_i , which increase with the size of the BI in table 1 to calculate the relevant required Business Indicator Component.

Table 1

BI ranges and marginal coefficients¹		
Bucket	BI range (R billion)²	BI marginal coefficients (α_i)
1	≤ 5	12%
2	$5 < BI \leq 150$	15%
3	> 150	18%

1. A bank with a BI = R200 bn shall calculate the relevant required BIC as follows: $(5 \times 12\%) + (150 - 5) \times 15\% + (200 - 150) \times 18\% = R31.35bn$.

2. Or such ranges and subject to such conditions as may be directed in writing by the Authority.

5. Conditions relating to divested activities

- 5.1 As stated in regulation 33(4)(g)(i)(B) of the proposed amended Regulations, a bank that wishes to exclude divested activities from its BI, shall submit a formal request to the PA in writing with detailed information on the divested activities as outlined in the Application Form: Matters related to the Standardised Approach, attached hereto as Annexure A. These items must be approved by the PA in writing before they are excluded from the bank's BI.

6. Instructions relating to the completion of the form BA 400

- 6.1 Instructions relating to the completion of form BA 400 (attached as Annexure B: Form BA 400) are furnished with reference to certain item descriptions and line-item numbers appearing on the form as follows:

Table 2

Line-item number	Column	Description
Panel A – Internal loss multiplier Usage		
1	8 – 10	Internal loss multiplier indicator. A DSIB bank approved to use loss data in the capital calculation must select 1 to indicate loss data usage. A non-DSIB bank must select 0 to set the internal loss multiplier equal to 1.
Panel B – Balance sheet and other items		
2	8 – 10	Total on-balance sheet assets. The amount should be in line with the accounting assets reported in Form BA 100.
3	8 – 10	Total on-balance sheet assets generating interest income, including total gross outstanding loans, advances, and interest-bearing securities (including government bonds) measured at the end of each financial year. It also includes assets subject to operating lease.
Panel C – Income statement		
5		Gross Income is formula driven.
6	8 – 10	Interest income from all financial assets and other interest income. Includes interest income from financial and operating leases and profits from leased assets.
7	8 – 10	Income from financial and operational lease of the amount reported in row 6.
8	8 – 10	Interest expenses from all financial liabilities and other interest expenses. Includes interest expense from financial and operating leases, losses, depreciation, and impairment of operating leased assets.
9	8 – 10	Expenses from financial and operational lease of the amount reported in row 8.
10	8 – 10	Absolute value of net interest income (including financial and operational lease). This item is formula driven.
11	8 – 10	Dividend income from investment in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates, and joint ventures.
12	8 – 10	Fee and commission income. Income received for providing fee-based advice and services. Includes income received by the bank as an outsourcer of financial services.
13	8 – 10	Fee and commission expenses. Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid for the supply of non-financial services (e.g., logistical, IT, human resources) (this item should be reported as a positive value)
14	8 – 10	Net profit (loss) on financial operations (trading book). This line item must include:

Line-item number	Column	Description
		(i) Net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets, and liabilities). (ii) Net profit/loss from hedge accounting. (iii) Net profit/loss from exchange differences.
15	8 – 10	Net profit (loss) on financial operations (non-trading book). This line item must include: (i) Net profit/loss on financial assets and liabilities measured at fair value through profit and loss. (ii) Realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortised cost). (iii) Net profit/loss from hedge accounting. (iv) Net profit/loss from exchange differences.
16	8 – 10	Income from ordinary banking operations not included in other BI items but of similar nature. Income from operating leases must be excluded.
17	8 – 10	Net adjustments to gross income.
18	8 – 10	Expenses and losses from ordinary banking operations not included in other BI items but of similar nature and from operational loss events. Expenses from operating leases must be excluded.
Panel D – Operational risk losses whole bank (according to relevant financial year-end)		
19 – 33	1 – 10	Loss events netting ≥ ZAR 350 000.
34 – 38, 40	1 – 10	Formula-driven loss information.
39	1 – 10	Total amount of losses qualifying for exclusion (approved by the PA).
Panel E– Standardised approach component calculations		
41 – 46, 48 – 50	1 – 10	These items are formula driven.
47	1 – 10	BI gross of excluded divested activities (approved by the PA).
Panel F– Operational Risk Capital		
51 – 54	1 – 10	These items are formula driven.
55	1	Hashtotal

7. Implementation date

7.1 The respective requirements and conditions specified in this proposed Directive become effective from the implementation date of the proposed amended Regulations, that is, from 1 July 2025 onwards.

8. Invitation for comments

- 8.1 Banks, controlling companies, branches of foreign institutions and other interested persons are hereby invited to submit their comments in respect of the proposed directive to: SARB-PA@resbank.co.za and to Itumeleng.Ledwaba@resbank.co.za, for the attention of Itumeleng Ledwaba, by no later than 7 November 2023.

Fundi Tshazibana
Chief Executive Officer

Date:

Encl. 2