

Ref.: 15/8/1/3

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

**Proposed directive issued in terms of section 6(6) of the Banks Act, 1990 Completion of returns relating to operational risk form BA 410 and form BA420**

### **Executive summary**

**The purpose of this proposed directive is to (i) direct banks, controlling companies and branches of foreign institutions (hereinafter collectively referred to as 'banks') in respect of specified matters regarding the completion and submission of the operational risk forms BA 410 and BA 420; and (ii) ensure consistency in terms of operational risk reporting across banks.**

**The form BA 410 must be submitted quarterly, reporting the losses for the specific period (quarter). The form BA 420 must be submitted quarterly at the end of the specific quarter and must include 12 months rolling data.**

**This Directive replaces Directive 8/2022, dated 23 September 2022.**

#### **1. Introduction**

- 1.1 Regulation 34(2) of the proposed amendments to the Regulations relating to Banks (the proposed amended Regulations) sets out the purpose of the forms BA 410 and BA 420 applicable to all banks.
- 1.2 The purpose of the return is to obtain from all banks information relating to loss events in the format of the attached forms BA 410 and BA 420.

#### **2. Directive relating to operational risk forms BA 410 and BA 420**

- 2.1 Based on the aforesaid and in accordance with the provisions of section 6(6) of the Banks Act, 1990, all banks are hereby directed:
  - 2.1.1 To ensure the bank's ongoing compliance with the respective directives and interpretations specified in regulation 34 of the proposed amended Regulations for the completion of the operational risk forms BA 410 and BA 420 .
  - 2.1.2 In accordance with the provisions of regulation 34(3) of the proposed amended Regulations, banks must in relation to items 1 to 74 of forms BA 410 and BA 420, apply a minimum gross loss threshold amount of R10 000 for reporting purposes. Only losses that fall within the definition of operational risk losses specified in the proposed amended Regulations, excluding credit and market boundary events,

must be recorded and reported on the forms BA 410 and BA 420.

2.1.3 To apply the instructions (1 to 10) specified in the table below pertaining to each relevant specified line item. Each line item is associated with a business line and a risk event type as detailed in paragraph 3 and 4 below.

**Table 1**

Instruction	Lines	Comment
1	1,8,15,22,29,36,43,50,57	<u>Number of events</u> <ul style="list-style-type: none"> <li>The number of loss events in the current reporting period</li> </ul>
2	2,9,16,23,30, 37, 44,51,58	<u>Gross loss amount</u> <ul style="list-style-type: none"> <li>The sum of loss impacts in the reporting period for all loss events in the reporting period.</li> </ul>
3	3,10,17,24,31,38,45,52,59	<u>Total recoveries</u> <ul style="list-style-type: none"> <li>These items are formula driven in the BA410 return.</li> </ul>
4	4,11,18,25,32,39,46,53,60	<u>Current reporting period</u> These items shall reflect the recoveries accounted for in the current reporting period relating to events included in the current reporting period.
5	5,12,19,26,33,40,47,54,61	<u>Prior reporting period</u> <ul style="list-style-type: none"> <li>These items shall reflect the recoveries accounted for in the current period relating to events reported in any prior periods.</li> </ul>
6	6,13,20,27,34,41,48,55, 62	<u>Net loss amount</u> <ul style="list-style-type: none"> <li>These items are formula driven in the BA410 return.</li> <li>The net loss amount is the sum of the gross loss less the current reporting period recoveries.</li> </ul>
7	7,14,21,28,35,42,49,56,63	<u>Largest single loss</u> <ul style="list-style-type: none"> <li>This value must reflect the largest single loss event captured in accordance with the minimum inclusion criteria.</li> </ul>
9	64,65,66,67,70,73	<u>Totals in respect of event types</u> <ul style="list-style-type: none"> <li>These items are formula driven in the BA410 return.</li> <li>They represent the sum of all line items (number of events, gross loss amount, total recoveries, current reporting period, prior reporting period and net loss amount) per risk event type across business lines.</li> </ul>
10	68,69 and 71,72	<u>Total recoveries</u> <ul style="list-style-type: none"> <li>Total current and prior period recoveries to be split between 'insurance' and 'other'.</li> </ul>
11	74	<u>Largest single loss</u> <ul style="list-style-type: none"> <li>These values are formula driven in the BA410 return.</li> </ul>

Instruction	Lines	Comment
		<ul style="list-style-type: none"> <li>Line 67 columns 1 to 7 represent the largest single gross loss for each risk event type across business lines (i.e., the largest single loss in lines 7,14,21,28,35,42,49,56,63).</li> <li>Line 67 column 8 represents the largest single loss of items determined in instruction 7 above.</li> </ul>

2.1.4 To apply the instructions (11 to 13) specified in the table below pertaining to the relevant specified columns. Columns 1 to 7 relate to risk event types specified in paragraph 4 below.

**Table 2**

Instruction	Column	Comment
11	1 to 7	<u>Risk event types</u> <ul style="list-style-type: none"> <li>These columns provide the Prudential Authority (PA) with information relating to the number of events and associated values across level 1 risk event types per business line. (Refer to Annexure 1 for risk event type and business line details)</li> </ul>
12	8  (Lines 1 to 6, 8 to 13, 15 to 20, 22 to 27, 29 to 34, 36 to 41, 43 to 48, 50 to 55, 57 to 62)	<u>Total of columns 1 to 7</u> <ul style="list-style-type: none"> <li>These items are formula driven in the BA410 return.</li> <li>They represent the sum for all line items (i.e., number of events, gross loss amount, total recoveries, current reporting period, prior reporting period and net loss amount) per business line across risk event types.</li> </ul>
13	8  (Lines 7, 14, 21, 28, 35, 42, 49, 56, 63)	<u>Largest single loss</u> <ul style="list-style-type: none"> <li>These items are formula driven in the BA410 return.</li> <li>They represent the highest of the large single gross losses of all risk event types per business line.</li> </ul>

2.1.5 In relation to items 75 to 86 of form BA 410, banks must apply a gross loss threshold amount of R5 million for reporting material operational risk losses, that is, banks shall report any specific loss as defined and envisaged in paragraph 2.1.2 that is equal to or exceeds R5 million. Banks may, after consultation with the PA, use a lower threshold amount should they so wish.

2.1.6 To apply instructions (14 to 28) specified in the table below pertaining to each relevant specified column.

**Table 3**

Instruction	Columns	Comment
14	1	<u>Internal code</u> <ul style="list-style-type: none"> <li>Insert the unique internal code for the risk event as generated by the bank's operational risk system.</li> </ul>
15	2	<u>Entity</u> <ul style="list-style-type: none"> <li>Specify the entity/cluster/business unit where the event occurred.</li> </ul>
16	3	<u>Previously reported in Section 2</u> <ul style="list-style-type: none"> <li>Specify whether the event was or was not reported as a significant loss in previous reporting periods.</li> </ul>
17	4	<u>Total gross loss amount</u> <ul style="list-style-type: none"> <li>Specify the total gross loss of the event (i.e., sum of all the impacts) accounted for during the life of the event (i.e., from the date the event occurred to the current date) as it relates to the threshold.</li> </ul>
18	5	<u>Gross loss for current reporting period</u> <ul style="list-style-type: none"> <li>The value of the event must include an impact accounted for during the current reporting period with the exception of events included due to late capture as explained in the inclusion criteria above.</li> </ul>
19	6	<u>Total recovery</u> <ul style="list-style-type: none"> <li>This is formula driven and will be calculated by adding all the insurance recoveries (column 7) and other relevant recoveries (column 8) accounted for during the life of the event (i.e., not limited to the current reporting period).</li> </ul>
20	7	<u>Recovery split – Insurance</u> <ul style="list-style-type: none"> <li>Include the total insurance recoveries during the life of the event (i.e., from the date the event occurred to the current date) irrespective of value.</li> </ul>
21	8	<u>Recovery split – Other relevant recoveries</u> <ul style="list-style-type: none"> <li>Include the total other relevant recoveries during the life of the event (i.e., from the date the event occurred to the current date) irrespective of value.</li> </ul>
22	9	<u>Risk event type</u> <ul style="list-style-type: none"> <li>With reference to Annexure 1, loss data included in the BA410 must be categorised by risk event type as it is in Section 1.</li> <li>Refer to the completion requirements in the return.</li> </ul>
23	10	<u>Date of occurrence</u> <ul style="list-style-type: none"> <li>Specify the date of occurrence of the event.</li> </ul>
24	11	<u>Date of accounting of first impact</u>

Instruction	Columns	Comment
		<ul style="list-style-type: none"> <li>Specify the accounting date of the first loss transaction of the event.</li> <li>This date could be a date prior to the current reporting period.</li> </ul>
25	12	<u>Date of accounting of first recovery</u> <ul style="list-style-type: none"> <li>Specify the accounting date of the first recovery transaction of the event.</li> <li>This date could be a date prior to the current reporting period.</li> </ul>
26	13 - 21	<u>Business line</u> <ul style="list-style-type: none"> <li>Assign a percentage (%) of the value to the appropriate business line.</li> <li>An event can have an impact across multiple business lines.</li> <li>Ensure that the sum of the percentages across business lines equals 100%.</li> </ul>
27	22	<u>Status closed</u> <ul style="list-style-type: none"> <li>Indicate whether the event is open or closed.</li> <li>This will inform the PA of the possibility of further impacts or recoveries associated with this event.</li> </ul>
28	23	<u>Event description</u> <ul style="list-style-type: none"> <li>Provide a brief description of the risk event.</li> <li>The field is limited to 200 characters.</li> </ul>

2.1.7 For purposes of this proposed directive gross loss means a loss stemming from an operational risk event or event type before any type of recovery is taken into consideration.

### 3. Mapping to business lines

3.1 To facilitate the completion of the forms BA 410 and BA 420 and to allow the PA to benchmark banks with their peers, loss data must be mapped to one of the nine business lines provided in table 4 below.

**Table 4**

Business line	Consisting of	Activities which may be included
Corporate finance	Corporate finance	<ul style="list-style-type: none"> <li>Mergers and acquisitions</li> <li>Underwriting, privatisations</li> <li>Securitisation</li> <li>Research</li> <li>Debt (government or high yield)</li> <li>Equity</li> <li>Syndication</li> <li>IPO</li> <li>Secondary private placements</li> </ul>
	Municipal / government finance	
	Merchant banking	
	Advisory services	

<b>Business line</b>	<b>Consisting of</b>	<b>Activities which may be included</b>
Trading and sales	Sales	<ul style="list-style-type: none"> <li>▪ Fixed income</li> <li>▪ Equity</li> <li>▪ Foreign exchanges</li> <li>▪ Commodities</li> <li>▪ Credit</li> <li>▪ Funding</li> <li>▪ Own position securities</li> <li>▪ Lending and repurchase / resale agreements</li> <li>▪ Brokerage</li> <li>▪ Debt</li> <li>▪ Prime brokerage</li> </ul>
	Market making	
	Proprietary positions	
	Treasury	
Retail banking	Retail banking	<ul style="list-style-type: none"> <li>▪ Retail lending and deposits</li> <li>▪ Banking services</li> <li>▪ Trust and estates</li> </ul>
	Private Banking	<ul style="list-style-type: none"> <li>▪ Private lending and deposits</li> <li>▪ Banking services</li> <li>▪ Trust and estates</li> <li>▪ Investment advice</li> </ul>
	Card services	<ul style="list-style-type: none"> <li>▪ Merchant / commercial / corporate cards</li> <li>▪ Private labels and retail</li> </ul>
Commercial banking	Commercial banking	<ul style="list-style-type: none"> <li>▪ Project finance</li> <li>▪ Real estate</li> <li>▪ Export finance</li> <li>▪ Trade finance</li> <li>▪ Factoring</li> <li>▪ Leasing</li> <li>▪ Lending</li> <li>▪ Guarantees</li> <li>▪ Bills of exchange</li> </ul>
Payment and settlement	External clients	<ul style="list-style-type: none"> <li>▪ Payments and collections</li> <li>▪ Funds transfer</li> <li>▪ Clearing and settlement</li> </ul>
Agency services	Custody	<ul style="list-style-type: none"> <li>▪ Escrow</li> <li>▪ Depository receipts</li> <li>▪ Securities lending (customers) corporate actions</li> </ul>
	Corporate agency	<ul style="list-style-type: none"> <li>▪ Issuer and paying agents</li> </ul>
	Corporate trust	
Asset management	Discretionary fund management	<ul style="list-style-type: none"> <li>▪ Pooled</li> <li>▪ Segregated</li> <li>▪ Retail</li> <li>▪ Institutional</li> <li>▪ Closed</li> <li>▪ Open</li> </ul>

Business line	Consisting of	Activities which may be included
		<ul style="list-style-type: none"> <li>▪ Private equity</li> </ul>
	Non-discretionary fund management	<ul style="list-style-type: none"> <li>▪ Pooled</li> <li>▪ Segregated</li> <li>▪ Retail</li> <li>▪ Institutional</li> <li>▪ Closed</li> <li>▪ Open</li> </ul>
Retail brokerage	Retail brokerage	<ul style="list-style-type: none"> <li>▪ Execution and full service</li> </ul>
Corporate items	Central Services	<ul style="list-style-type: none"> <li>▪ Corporate-level financial reporting events</li> <li>▪ Incidents experienced by the Board of Directors (or equivalent) as a whole or individually</li> <li>▪ Natural disaster which affects a regional office</li> <li>▪ Pandemic</li> </ul>

#### 4. Risk event types

4.1 Banks are required to map their historical internal loss data into the relevant Level 1 supervisory categories specified in table 5 below, as defined in Annex 9 of the Basel II Framework<sup>1</sup>.

**Table 5**

Category relating to event type (Level 1)	Definition	Category relating to activity (Level 2)	Examples of activities include (Level 3)
Internal fraud	Losses due to acts of a type intended to defraud, misappropriate property of circumvent regulations, the law or company policy excluding diversity / discrimination events, which acts involve at least one internal party	Unauthorised activity	<ul style="list-style-type: none"> <li>▪ Transactions intentionally not reported</li> <li>▪ Unauthorised transaction with monetary loss</li> <li>▪ Intentional misrepresentation of position</li> </ul>
		Theft and fraud	<ul style="list-style-type: none"> <li>▪ Fraud / credit fraud / worthless deposits</li> <li>▪ Theft / extortion / embezzlement / robbery</li> <li>▪ Misappropriation of assets</li> </ul>

<sup>1</sup> Basel III: Finalising post-crisis reforms, December 2017, BIS: *Minimum capital requirements for operational risk, section 5, paragraph 19(c), page 131.*

Category relating to event type (Level 1)	Definition	Category relating to activity (Level 2)	Examples of activities include (Level 3)
			<ul style="list-style-type: none"> <li>▪ Malicious destruction of assets</li> <li>▪ Forgery</li> <li>▪ Cheque kiting</li> <li>▪ Smuggling</li> <li>▪ Account take-over / impersonation / etc.</li> <li>▪ Tax non-compliance / wilful evasion</li> <li>▪ Bribes / kickbacks</li> <li>▪ Insider trading (not on bank / firm's account)</li> </ul>
External fraud	Losses due to acts of a type intended to defraud, misappropriate property, or circumvent the law, by a third party	Theft and fraud	<ul style="list-style-type: none"> <li>▪ Theft / robbery</li> <li>▪ Forgery</li> <li>▪ Cheque kiting</li> </ul>
		Systems security	<ul style="list-style-type: none"> <li>▪ Hacking damage</li> <li>▪ Theft of information with monetary loss</li> </ul>
Employment practices and workplace safety	Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity / discrimination events	Employee relations	<ul style="list-style-type: none"> <li>▪ Compensation, benefit, termination issues</li> <li>▪ Organised labour activity</li> </ul>
		Safe environment	<ul style="list-style-type: none"> <li>▪ General liability such as slip and fall</li> <li>▪ Employee health and safety rules events</li> <li>▪ Workers Compensation</li> </ul>
		Diversity and discrimination	<ul style="list-style-type: none"> <li>▪ All discrimination types</li> </ul>
Clients, products, and business practices	Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature of design of a product	Suitability, disclosure, and fiduciary	<ul style="list-style-type: none"> <li>▪ Fiduciary breaches / guideline violations</li> <li>▪ Suitability / disclosure issues (KYC, etc.)</li> <li>▪ Retail customer disclosure violations</li> <li>▪ Breach of privacy</li> <li>▪ Aggressive sales</li> <li>▪ Account churning</li> <li>▪ Abuse of confidential information</li> <li>▪ Lender liability</li> </ul>
		Improper business or market practices	<ul style="list-style-type: none"> <li>▪ Antitrust</li> </ul>



Category relating to event type (Level 1)	Definition	Category relating to activity (Level 2)	Examples of activities include (Level 3)
			<ul style="list-style-type: none"> <li>▪ Improper trade / market practices</li> <li>▪ Market manipulation</li> <li>▪ Insider trading (on bank / firms account)</li> <li>▪ Unlicensed activity</li> <li>▪ Money laundering</li> </ul>
		Product flaws	<ul style="list-style-type: none"> <li>▪ Product defects (unauthorised etc.)</li> <li>▪ Model errors</li> </ul>
		Selection, sponsorship, and exposure	<ul style="list-style-type: none"> <li>▪ Failure to investigate client per guidelines</li> <li>▪ Exceeding client exposure limits</li> </ul>
		Advisory activities	<ul style="list-style-type: none"> <li>▪ Disputes over performance of advisory activities</li> </ul>
Damage to physical assets	Losses arising from loss or damage to physical assets from natural disaster or other events	Disasters and other events	<ul style="list-style-type: none"> <li>▪ Natural disaster losses</li> <li>▪ Human losses from external sources (terrorism, vandalism)</li> </ul>
Business disruption and system failures	Losses arising from disruption of business or system failures	Systems	<ul style="list-style-type: none"> <li>▪ Hardware</li> <li>▪ Software</li> <li>▪ Telecommunications</li> <li>▪ Utility outage / disruptions</li> </ul>
Execution, delivery, and process management	Losses from failed transaction processing or process management, from relations with trade counterparties and vendors	Transaction capture, execution, and maintenance	<ul style="list-style-type: none"> <li>▪ Miscommunication</li> <li>▪ Data entry, maintenance or loading error</li> <li>▪ Missed deadline or responsibility</li> <li>▪ Model / system failure</li> <li>▪ Accounting error / entity attribution error</li> <li>▪ Other task malfunctioning</li> <li>▪ Delivery failure</li> <li>▪ Collateral management failure</li> <li>▪ Reference data maintenance</li> </ul>
		Monitoring and reporting	<ul style="list-style-type: none"> <li>▪ Failed mandatory reporting obligation</li> </ul>

Category relating to event type (Level 1)	Definition	Category relating to activity (Level 2)	Examples of activities include (Level 3)
			<ul style="list-style-type: none"> <li>Inaccurate external report (loss incurred)</li> </ul>
		Customer intake and documentation	<ul style="list-style-type: none"> <li>Client permissions / disclaimers missing</li> <li>Legal documents missing / incomplete</li> </ul>
		Customer / client account management	<ul style="list-style-type: none"> <li>Unapproved access given to accounts</li> <li>Incorrect client records (loss incurred)</li> <li>Negligent loss or damage of client assets</li> </ul>
		Trade counterparties	<ul style="list-style-type: none"> <li>Non-client counterparty misperformance</li> <li>Misc. non-client counterparty disputes</li> </ul>
		Vendors and suppliers	<ul style="list-style-type: none"> <li>Outsourcing</li> <li>Vendor disputes</li> </ul>

## 5. Invitation for comment

- 5.1 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](mailto:SARB-PA@resbank.co.za) and to [Lindray.Loutan-Tinini@resbank.co.za](mailto:Lindray.Loutan-Tinini@resbank.co.za), for the attention of Lindray Loutan-Tinini, by no later than 7 November 2023.

Fundi Tshazibana  
**Chief Executive Officer**

Date: