Annexure 4

Comments to draft 1 of the 5th set of proposed amendments to the Regulations relating to Banks

COMMENTS RECEIVED FROM INDUSTRY VIA THE BANKING ASSOCIATION SOUTH AFRICA

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
1.	23(6)(c)(v)	(B) Unless directed otherwise in writing by the Authority, the bank shall maintain the value of the property as at the date of the relevant loan origination, provided that- (i) the bank shall adjust the aforesaid value downwards when an extraordinary, idiosyncratic event occurs, resulting in a probable permanent reduction in the value of the property. (ii) when the bank previously adjusted the property's value downwards, as envisaged in sub-item (i) hereinbefore, the bank may subsequently make an upward adjustment to the value of the property, but in no case to a value higher than the value of the property at origination. (iii) the bank may take into consideration modifications made to the property after the date of origination of the loan that unequivocally increases the property's value. South Africa is a higher inflation environment than Europe and the use of updated valuations in the calculation of LTVs is a critical part of a bank's risk management. The maintenance of the property value at loan origination means that there will be a disconnect between risk management and BA reporting.	Recommend an update to this regulation to allow property values to be updated in consideration of the higher inflation environment in South Africa: i.e., that the LTV is based on the Limit to the current valuation.	The primary objective of this requirement is to prevent the emergence of property price bubbles and the resulting undesirable impact on loan-to-value (LTV) and risk weighted assets for real estate portfolios. Although draft 1 of the Regulations relating to Banks (Regulations) requires banks to maintain the value of the property at origination value, it makes an exception, by allowing upward adjustments in cases where modifications to the property unequivocally increase the value of the property. In essence, allowing increases of property values to be driven by fundamentals of real estate markets. The Prudential Authority (PA) will issue Tier 3 legislation, after the effective implementation date of the Regulations, on the interpretation and implementation of the exception.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
2.	23(11)(b)(v)(E)(vi)	23(11)(b)(v)(E)(vi) shall ensure that idiosyncratic, industry-specific changes and/ or material business cycle effects are appropriate drivers to ensure an appropriate migration of any relevant exposure from one category to another category. It is not clear what the expectation for this requirement is. Idiosyncratic effects cannot be used in a model as it would be unique to an individual and incorporating business cycle effects will contradict the goal to produce through the cycle estimates.	Clarify	The PA notes that the regulation relating to the comment raised is incorrectly referenced as 23(11)(b)(v)(E)(vi), instead of 23(11)(b)(v)(E)(vii) of the Regulations. It is however the PA's view that this requirement does no more than reinforce some of the existing internal rating based (IRB) approach minimum requirements by for instance requiring risk parameters to incorporate appropriate and representative risk drivers of the relevant portfolios. To further clarify the requirement, the PA will consider updating Guidance Note 9 of 2022.
3.	23(6)(c)(v)(C)	23(6)(c)(v)(C) The value of the relevant property-	Clarify, Should independently in this context be interpreted as "independently of the property"? Recommend that footnote added to the draft indicates that the valuation Independently from the acquisition, loan processing process.	Agree. Draft 2 of the Regulations has been amended to include footnote 33.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
4.	23(8)(a)(v)	SCRA corporate exposures to entities, institutions or persons relate to all corporate exposure of banks incorporated in a jurisdiction that does not allow the use of external credit assessments or ratings issued by eligible institutions to determine the relevant minimum required amount of capital and reserve funds for purposes of prudential regulation and supervision, provided that- In the revised Standardised approach, there is no risk weight for unrated ECRA banks, but the risk weight is then determined via the SCRA approach. For corporates, there is a 100% risk weight for unrated corporates, and the wording of Regulation 23(8)(a)(v) implies that the SCRA approach is only for jurisdictions where external credit assessments are not allowed. Given the low rating penetration, the SCRA approach for Corporates can yield increased risk differentiation and risk management.	Clarify, is the intention to disallow the SCRA approach for South African incorporated banks. Recommend that the PA allow the SCRA approach for large corporates, even where a jurisdiction allows an ECRA approach, to consider the low rating penetration in South Africa.	The requirement clearly states that the standardised credit risk assessment (SCRA) approach is applicable to corporate exposures incorporated in jurisdictions that do not allow the use of external credit ratings, issued by eligible (and nominated) external credit assessment institutions (ECAIs). Accordingly, and given that the PA allow banks to use credit ratings issued by ECAIs, banks will be expected to use the external credit risk assessment (ECRA) approach for all corporate exposures incorporated in South Africa.

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5.	23(11)(d)(iv)(D) In the case of retail exposures that are in default- (i) the capital requirement (K) shall be equal to the higher amount of zero and the difference between the exposure's LGD and the bank's best estimate of expected loss, provided that- (aa) the LGD estimate in respect of retail exposures secured by residential property shall in no case be less than 10 per cent unless the said exposure is protected by a guarantee obtained from a sovereign; (bb) the Authority may amend the said minimum LGD ratio of 10 per cent subject to such conditions as may be specified in writing by the Authority;	The 10% floor for defaulted retail mortgages is more conservative than the floor specified in the Basel 3 reforms (5% regardless of default status) Defaulted loans can still be highly collateralised, and have high cure rates, in which case lower LGD is warranted. This is particularly true for distress restructures where the loss is known with relative certainty and typically very low. Employing a higher floor incentives lower levels of modelling granularity.	Clarify Recommend aligning to the Basel 3 Final Reforms floor of 5%.	Agree. Draft 2 of the Regulations has been amended to reflect the 5% loss given default (LGD) floor in respect of exposures secured by residential real estate.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
6.	23(13)(c)(iii) (iii) Risk weighting When a bank that adopted the advanced IRB approach for the measurement of the bank's risk- weighted credit exposure obtains– (A) protection from a guarantor in respect of the bank's credit exposure to a corporate institution, sovereign or bank, the bank– (i) shall reflect the risk mitigation effect of the guarantee by way of an adjustment to either the PD ratio or LGD ratio of the relevant exposure, provided that, whichever option the bank chooses, the bank shall apply the adjustments to the PD ratio or LGD ratio in a consistent manner; or (ii) may reflect the risk mitigation effect of the guarantee in accordance with the relevant requirements relating to the recognition of guarantees in terms of the foundation IRB approach specified in subregulation (12)(d) above.	Regulation 23(12)(d)(iii) was changed to include the following: (ii) shall in respect of the protected portion apply- (aa) the risk-weight function related to the relevant guarantor; and (bb) the PD ratio related to the relevant guarantor, provided that, based upon its seniority or any collateralisation of a guaranteed commitment, the bank may replace the LGD ratio of the underlying transaction with the relevant LGD ratio related to the said guaranteed position. This gives clarity that either the PD or the LGD or both can be adjusted in the Foundation approach. However, this is more restrictive in the Advanced approach where only one of the PD or the LGD may be adjusted, thereby not recognizing the full value of guarantees. The EBA (https://www.eba.europa.eu/eba-publishes-final-guidelines)-credit-risk-mitigation-institutions-applying-irapproach- own, paragraphs 31i and 31ii also allows the adjustment of both PD and LGD)	Clarify, I. given that the guaranteed exposure uses the risk-weight function of the relevant guarantor, does this mean that the asset-class in the BA200 that should be used should be that of the guarantor? II. if there is also other collateral (such as cash) placed by the underlying counter can this be taken into consideration? III. As per the comment, exposures remaining on advanced can substitute both PD and LGD as per EBA rules, confirm that in the advanced approach this will be restrictive to either PD or LGD, not both. Recommend that the Advanced approach may also adjust the PD and the LGD ratio for the presence of guarantees, rather than the PD or the LGD ratio, subject to the resulting risk weight should not be lower than direct exposure to the guarantor.	The PA takes note of several clarification questions raised by the comments in relation to the interpretation of regulation 23 (12) and (13) of the Regulations relating to the recognition of credit risk mitigation in the capital requirement calculations. Accordingly, the PA will issue Tier 3 legislation in due course, to provide clarity and guidance on the interpretation and implementation of the related requirements in this regard. However, in practice the PA expects IRB banks to reflect the risk mitigation effect of credit guarantee by adjusting either the probability of default (PD) ratio or LGD but not both at the same time, and only in exceptional circumstances to use the risk weight function of the guarantor.

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7.	(11)(c)(iv)(B)(ii)	exposures to transactors, that is, the exposure relates to an obligor with a facility such as a credit card or charge card in respect of which the outstanding balance has been repaid in full at each relevant scheduled repayment date for the preceding 12 months, or the exposure is in relation to an overdraft facility in respect of which no drawdowns have been made during the preceding 12 months; and The wording limits overdrawn accounts to be labelled as transactors only when no drawdowns are made for 12 months. However, overdrafts can follow the same behaviour as credit cards where the full amount is repaid before a new drawdown.	Clarify how should new deals be treated before 12 months of history is available. Recommend that overdrafts can also be classified as transactors, should the account be repaid in full each month for the previous 12 months.	The default approach is to regard such exposures as revolvers until such time that the banks collect at least 12 months' worth of history. The PA does not agree. The wording and the qualifying revolving retail exposure (QRRE) asset class is defined sufficiently broad to include a wide range of revolving facilities.
8.	23(11)(d)(ii)(A) (and others)	In the case of an exposure that is in default- (i) the capital requirement (K) shall be equal to the higher of zero and the difference between the exposure's LGD and the bank's best estimate of expected loss. The risk-weighted amount in respect of the defaulted exposure shall be calculated through the application of the formula specified below. RWA = K x12,5 x EAD Calculating K based on the difference between a bank's LGD, and the best estimate of expected loss is sensible.	Recommend that the 12,5 scalar be based on the reciprocal of the capital adequacy ratio.	The requirement is in line with the Basel framework. Accordingly, the PA will not be making any amendments in this regard.

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		However, scaling to RWA based with 12,5 was based on an 8% capitalisation rate, which is no longer the case A bank with LGD of 10% and BEEL of 5% would hold 63% of RWA, which translates to a minimum of 7,81% of capital (when using a 12.5% minimum capital adequacy ratio) – or 56% more on a relative basis than what the 10% LGD implies should be held. This will be further exacerbated by clients on the Foundation approach where there will be larger LGD/BEEL gaps.		
9.	23(13)(b)(v)(D)(v) (aa)	23(13)(b)(v)(D)(v) (aa) a 12-month fixed-horizon approach, that is, for each relevant observation in the reference data set, the bank's default outcomes shall be linked to the relevant obligor and facility characteristics twelve months before default. Revolving products tend to have significant changes in utilisation in the lead-up to default which this method effectively ignores. Revolving products also have changes in the limits 12 months before default, and the fixed-term horizon method will not capture. Fixed- term products have s decreasing balances matched to a paydown curve, until the point that it starts missing payments. There is however a more consistent link between the 12th point before default and the point of default within term products compared to revolving products.	Clarify, for new clients and clients that were in default 12 months before the default event (with a cure event in between), should the closest valid data point be used (i.e., the first data point for new clients, and the first after the cure event for repeat defaults)?	The PA takes note of the comment and will consider updating Guidance Note 9 of 2022 to provide clarification and guidance on the requirement.

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		As an example: A revised limit from R10 000 to R100 000 and the client defaults 6 months after revision. Using all 12 data points will consider the limit increase in the reference data set, whereas a fixed term 12-month horizon will only consider the outdated R10 000.Using all 12 points prior to default creates a better alignment between the limit that the client defaults at.		
10.	(11)(b)(v)(D)(i)(bb)(ii)	(Seasoning):When the bank estimates PD and LGD, the bank shall also analyse the data used to derive the estimates, the representativeness of the age of the relevant facility, that is, the time since origination for PD and the time since the date of default for LGD, and the bank shall appropriately adjust the estimates with an adequate margin of conservatism to account for any lack of representativeness as well as any anticipated implications of rapid exposure growth; It should be sufficient if the model development shows that there is no seasoning effect or to incorporate the seasoning via another approach that is shown to be superior. Also, the seasoning impact may not necessarily need a margin of conservatism.	Recommend wording: seasoning, provided that, for each relevant pool, when the bank estimates PD and LGD, the bank shall also analyse the data used to derive the estimates to assess the impact of the age of the relevant facility, that is, the time since origination for PD and the time since the date of default for LGD. When there are seasoning effects in the data, the bank shall appropriately adjust the estimates to ensure that the estimates are appropriate for the implications of rapid exposure growth.	The PA is of the view that the requirement and the wording are aligned to the Basel framework and will therefore be retained as is in the Regulations.

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11.	23(13)(b)(v) (D)(v)(hh)	23(13)(b)(v)(D)(v)(hh) appropriate homogenous segments, that is, the bank shall ensure that its EAD estimates are not, for example, based upon, or partly based upon: Our understanding is that the examples are provided to ease the interpretation of the requirement and are neither exhaustive nor prescriptive. For example, if the model development considers these segmentations, and finds that there is no significant risk differentiation, there would be no need to incorporate these segmentations which would then only serve to increase the model complexity.	Clarify	Correct. This requirement is essentially a principle intended to reinforce some of the IRB minimum requirements. The PA will consider compliance with this requirement as part of its model change review process as part of its supervisory processes.
12.	23(13)(b)(v) (D)(v) (gg)	23(13)(b)(v) (D)(v) (gg) reference data that include accrued interest, other due payments, and limit excesses, that is, the bank's EAD reference data shall not, for example, be capped to the principal amount outstanding or any facility limit.	Clarify, would capping/flooring at a high percentile be an acceptable interpretation of this requirement?	The PA is of the view that the requirement is sufficient and clear, therefore no clarity is required. The PA will address the comment bilaterally if the need arises, as part of its supervisory processes.
13.	23(6)(j) – Page 22 footnote 2 & 3	Proposed Regulation 23(6)(j) – Page 22 footnote 2 & 3	The framework indicates that the phase-in will be from the calendar year 2023. Clarify, is this correct or is it from 2024 as per G4/2022? Clarify, is the phase-in over 6 years or 5 years? Clarify, can banks choose to fully adopt vs phase-in, on the implementation date? Clarify, should the bank take the full impact on day 1 – would this be implemented in 2023 or 2024?	Agree. Draft 2 of the Regulations has been amended to refer to 2024 and not 2023 and the specified risk weight to refer to 130% and 160% respectively and not 100%. The phase-in will be over 5 years, and the intention is for individual banks to decide whether to fully-adopt. The banks must, however, inform the PA of the decision to fully adopt. If full adoption is on day 1, the full impact will be in 2024.

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14.	23(6)(j)	Proposed Regulation 23(6)(j) Risk weighting for National legislative programmes (100%) has been removed (Basel Standard (CRE20.59))	Clarify if this is correct.	Correct. National legislative programmes are subject to specific conditions before the PA can exercise the discretion. Currently, South Africa does not have such programmes. However, if they exist in the future, the PA will update legislation.
15.	Regulation 23(6)(j)	Proposed Regulation 23(6)(j) Subordinated debt	Clarify, is there a more detailed definition for a Subordinated debt other than what is available in CRE20? Basel Standard (CRE20.60).	There is no detailed definition of Subordinated debt other than what is specified in CRE20 (and incorporated in regulation 23(6)(j) of the Regulations). Banks are welcome to submit specific interpretation requests to the PA. These will be addressed bilaterally as part of the PA's supervisory processes.
16.	23(6) 23(6)(j)	Regulation 23(6)(j) For Equity in Funds	Clarify, are Banks still allowed to use the PD / LGD approach as per Reg 31(7)(a)(E)(i) when quantifying the risk-weighted assets relating to Funds' Equity exposures? This applies where the look-through approach is being applied.	Please refer to regulation 31(6) read with regulation 23(6)(j) which outlines the requirement for equity exposures using the PD/LGD approach.

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17.	General	The format in which the changes are presented was not conducive to efficient review and impact assessment to enable timely informed commentary. Specifically, there are quite a few instances where amendments to paragraphs are minimal, but the reader still needs to do a line-by-line comparison between old and new regulations to identify what has changed and assess the impact.	Recommend the PA consider issuing a version of the full regulations which track the proposed changes.	Due to the potential impact of continuous amendments to legislation, the PA has contracted Sabinet to make the fully current set of key pieces of legislation available on the South African Reserve Bank's website: (https://www.resbank.co.za/en/home/about-us/SARB-core-legislation), incorporating all previously approved/ published amendments to those particular Acts and Regulations, including the Regulations relating to Banks. All interested persons have access to the complete set of fully current key pieces of legislation in place, including the Regulations relating to Banks, whenever they wish to consider any proposed amendments that the PA has published for comment. Draft 2 for ease of reference will reflect and track all changes made to Draft 1 of the 5th set of Amendments to the Regulations.

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18.	Annex 1, pg 12, subregulation 6(c)(v)(B)	The value of the property to be used in the LTV calculation shall be the value of the property as of the date of the relevant loan origination. The draft regulations do not seem to cater for subsequent loan restructures where, for example, the bank may, on the application of the client, advance additional funds to be serviced over the remained of the original loan period. Such a further advance would not be considered the origination of a new loan in the ordinary course. However, when assessing such a request from a client, the bank would consider the current value of the property and resultant LTV post the further advance.	Clarify whether such a further advance will be considered a new date of the loan origination for the purpose of the LTV calculation; in which case the value of the property will be updated to the approved the client's request for a further using the value at original loan origination, will using the value at original loan origination, will likely overstate the loan to value. Recommend that Footnote 40 in BCBS 424 be added to the draft regulations. Footnote 40 indicates that the valuation should be done Independently from the bank's mortgage acquisition, loan processing and loan decision and loan decision process.	Please refer to the PA's responses to comments 1 and 3 above.

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19.	Annex 1, pg 19, table 1, off-balance sheet	Any relevant repurchase agreement, resale agreement or asset sale with recourse in respect of which the credit risk exposure remains with the bank, which exposure amount shall be risk weighted based upon the relevant type of asset and not based upon the type of counterparty to the agreement or transaction.	Clarify in which instances does the PA anticipate the extract to be applicable?	This requirement relates to the structure rather than the legal form of the transaction. Banks are welcome to approach the PA bilaterally on specific cases to request further clarity.
20.	Annex 1, Pg 19 and pg 159, table 1	The word forward is repeated, is this intentional? Forward asset purchases, forward deposits and partly paid shares and securities, which represent commitments with certain drawdown.	Clarify This is already clarified in the regulations, forward assets and forward deposits are different products. Recommend removing this comment.	The wording is intentional and in the PA's view and is also aligned to the Basel text.
21.	Annex 1, Pg 105, section (14)(b)(ii)(E)	There is a formula to calculate the weighted LGD on pages 88 and 89 $LGD^* = LGD_U \cdot \frac{E_U}{E \cdot (1+H_E)} + LGD_S \cdot \frac{E_S}{E \cdot (1+H_E)}$	Recommend that LGD floors be pro-rata based on the application of the collateral from the lowest floor to the highest floor.	The PA assumes that the comment relates to regulation 23(14)(b)(ii)(F) of the Regulations and in instances where there is multiple collateral. In that case, LGD floors should be based pro-rata on the application of collateral from the lowest floor to the highest floor.
22.	Regulations – Table numbers Standardised Approach	The tables in every section are renumbered to start with "Table 1" - this makes it difficult to refer to.	Recommend that the numbering should be in line with Table numbering in the old Regulations.	For every sub-regulation, the table numbering restarts from number 1. Each table number should therefore be read in conjunction with the specific sub-regulation it relates to.

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23.	Regulation 23(8)(a)(v)(E) Standardised Approach	"In the case of an unrated corporate exposure to an entity, institution or person that is part of a group in respect of which the reported annual turnover or sales for that consolidated group is less than or equal to such amount as may be directed in writing by the Authority in respect of the most recent financial year,"	Clarify Clarify, if the bank has an unrated exposure to ABC Zambia (Pty) Ltd, which is a subsidiary of ABC Africa (Pty) Ltd, which is a subsidiary of ABC USA (Pty) Ltd (listed in the USA). The consolidated financial statements of ABC Africa (Pty) Ltd or the consolidated financial statements of ABC USA (Pty) Ltd should be used to establish whether turnover is less than or equal to such amount as may be directed in writing by the authority.	The PA does not consider it prudent to issue any guidance at this stage. However, banks are welcome to approach the PA on a bilateral basis to seek further guidance.
24.	Regulation 23(6)(c)(v)(A) Standardised Approach	"The outstanding amount of the mortgage loan shall include any undrawn committed amount related to the loan"	Clarify, whether the bank shall convert the off- balance sheet exposure to a credit equivalent amount by applying CCF to calculate the outstanding amount of the mortgage loan.	When determining the relevant LTV, the undrawn committed amounts must be regarded as off-balance sheet exposures. Accordingly, relevant credit conversion factors (CCF) must be applied to undrawn off-balance sheet portion to derive the exposure value.
25.	Amendment (3)(c)(r)/ (13)(d)(i)(A)(i)(cc) IRB	Given the bank shall not be allowed to apply the advanced IRB to certain asset classes, it is the intention of the regulations that the application of the effective maturity calculations in respect of derivatives outlined in current Regulation (13)(d)(ii)(B)(ii) in terms of breaching the 1-year effective maturity floor will not be permitted under the foundation IRB approach?	Clarify	Please refer to the proposed directive on threshold amounts recently issued by the PA for public comment. The calculation of effective maturity for portfolios under foundation internal ratings based (FIRB) approach is addressed in the proposed Directive. Accordingly, the exemptions outlined in regulation 23(13) of the Regulations with regards to the calculation of effective maturity will apply to portfolios under the FIRB approach.

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26.	subregulation (11)(d)(ii) for item (A) IRB	M is the effective maturity of the relevant exposure, which maturity shall be equal to 2.5 years, unless the exposure relates to a repurchase or resale transaction in which case an effective maturity equal to six months, that is, M = 0.5, shall apply. Under this framework, most of the wholesale corporate exposures will migrate to the foundation approach. We seek clarity on the short-term activities that can be exempted from the use of fixed 2.5 maturity.	Clarify	Please refer to the PA's response to comment 25.

27.	sub regulation 5(a)	For banks that have adopted the standardised approach for measurement of the bank's exposure to credit risk (and presumably for purposes of output floor calculations), we note that the PA is retaining the option for banks to choose between the simplified standardised approach (sub- regulation 6 & 7), and the standardised approach (sub- regulation 8 & 9). In terms of the framework, this is not a separate approach but rather an umbrella term used in the Basel II framework to describe the simplest RWA options available to banks under every asset class. In the second Basel framework (BCBS128) this was included in an annexure to the main document. The reason BCBS pulled together the simplest treatments under this umbrella term was to provide additional guidance for supervisors in less sophisticated developing markets. The expectation was that, at least initially, supervisors in many developing countries would adopt this simpler version of the Standardized Approach. The final framework has not carried over the simplified standardised approach framework annexure, although some of the final pillar III table framework requirements still refer to it. In South Africa, some important framework national discretions are codified under the simplified standardised approach specifically, the zero-rating of certain SA Government exposures and the zero-rating of certain bank intra-group exposures.	Recommend that the standardised approach be simplified by retaining one approach and that the appropriate national discretions be codified under that singular standardised approach.	A PA policy decision was taken that the simplified standardised approach will be retained in the Regulations. The PA will consider removing the simplified standardised approach when moving to Prudential Standards and a legislative framework is in place for Tier 2 and Tier 3 Banks.

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28.	Various	The impact of several changes in the draft regulations is particularly unfavourable to trade finance exposures. See appendix I for detailed feedback.	Clarify	The PA will conduct further assessment on the treatment of trade finance in the Regulations. Any final decision in this regard will be communicated to banks in due course.
29.	3(e) / sub regulation 6(b)(iii)(A)	We are seeking clarification on the application of the granularity criteria, specifically, whether it should be applied at a bank-group or group-consolidated level, and whether exposures to a counterparty in several of our group entities should be aggregated.		Please refer to Circular 5 of 2020 for the application of granularity criteria. The PA will consider updating the circular in due course.
30.	3(e) / sub regulation 6(b)(iii)(A)	To qualify as a "transactor" there is a requirement that balances should be fully repaid for the previous twelve months.	Clarify if exposures which have existed for less than twelve months qualify as transactors.	The default approach is to regard such exposures as revolvers until such time that the banks collect at least 12 months' worth of history.

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31.	3(e) / sub regulation 6(b)(v)(D)	Regarding the treatment of unhedged exposure. We are seeking clarification on the application of this requirement: - Does the multiplier only apply to the unhedged portion of the exposure or the entire exposure, should the threshold of 90% not be met? [1] - Per the Basel framework, it applies to retail AND residential real estate exposures. The draft regulations specify application only to residential real estate exposures.[2] - In the absence of information required on the currency of income, can we use the currency of the country of residence as a proxy?[3] - For existing exposures, where the currency of income is not available, can we use the country of residence as a proxy?[4]. - Provide guidance on the calculation of the hedge cover e.g. where a loan has irregular repayments (balloon or bullet payment structure) [5] Does the currency multiplier apply to IPRE [6] If a residential real estate exposure to a property shell company, receives the same treatment as individuals, will the currency multiplier apply?[7]	Clarify	[1] the risk weight will be adjusted by the multiplier which in turn will be applied to the entire exposure. [2] The multiplier applies to all retail exposures in paragraph b, which includes residential real-estate exposures (paragraph b(v)(C) and other retail exposures) [3] and [4] If all the required information is not known or available, the PA expects banks to take the conservative approach and apply the multiplier. [5] When considering whether to use the multiplier the loan installments as contained in the loan agreement should be considered. [6] The section only relates to retail exposures. Income producing real estate (IPRE) is classified under specialised lending, that is, wholesale exposures. [7] Yes. If it complies with the requirements to be classified as retail exposure the currency multiplier will apply.

32.	3(f) / sub-regulation (6)(c)	In terms of the classification and treatment of exposures secured by real estate collateral, we have several questions. See appendix G for more information. a. The definition of ADC exposures. We recommend that a detailed definition of ADC exposures be added to regulation 67. We further recommend that only exposures where there are insufficient other sources of income or assets to mitigate risk, and which would fall under the definition of HVCRE under the IRB approach be classified as ADC for standardised RWA purposes, aligning the definition to the treatment of ADC and HVCRE as interchangeable in the BA returns. This implies that some exposures would then be treated as uncollateralised, and risk-weighted using the counterparty risk weight. b. Regarding the asset classification of lending to corporates underpinned by "residential" real estate: should it be classified as "commercial real estate"? c. Regarding the treatment of lending where property acquisition or refinancing is not the primary purpose of the lending: Can it be treated as commercial real estate albeit with a potential high LTV? Or should it be classified as a general, unsecured corporate exposure? d. Please provide clarification on the treatment where lending is collateralised by both residential and commercial real estate.	Clarify	a) Draft 2 of the Regulations has been updated, and a detailed definition is included in regulation 23 and linked to regulation 67. b) It will depend on the nature of the loan. If the loan is granted to finance the purchase of the asset, this will qualify for classification in one of the real estate categories. However, if the loan is granted to a corporate entity and real estate asset pledged as collateral, then the appropriate asset classification is corporate. c) If not used for property acquisition (credit risk mitigation and need to meet the criteria) it should be categorised as general corporate exposure. d) Please refer to regulation 23 (7)(d) of the Regulations for further guidance.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
33.	3(f) / sub-regulation (6)(c)	National Treasury has opted to require the whole loan approach for risk weighting of residential and commercial real estate exposures. The bank proposes that the loan-splitting approach be adopted instead. See appendix F for more information		The decision to use the whole loan approach was a PA policy stance after consultations with industry.
34.	3(f) / sub-regulation (6)(c)	The definitions applied to the section of the draft regulations dealing with property exposures are difficult to follow in some areas e.g., - In the final framework on the BCBS website the preamble in section 20.69, the framework provides a clear overview of the possible asset classes for property exposures. - In section 20.70 the framework introduces and explains the concept of "regulatory real estate" - In section 20.77 the framework provides a clear definition of "regulatory residential real estate" - In section 20.78 the framework provides a clear definition of "regulatory commercial real estate. This clarification, provided in the final framework, is a further improvement on BCBS424. The difficulty in the draft regulations arises from the overlay of the final framework onto the original (2008 & 2012) version of the regulations.	Recommend that the PA reconsider redrafting this entire section, including the structure and definitions, to bring it closer in line with the final framework and to simplify the text whilst retaining all the requirements.	The CRE paragraphs referred to are introductory paragraphs. The Regulations combined the general introductory paragraphs with the requirements in the Regulations. This was done to bring legal certainty. This in turn, influenced the structure. Requirements captured as part of Basel II, if not replaced by the requirements captured in the Basel III post-crisis reforms, will remain applicable.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
35.	3(f) / sub-regulation (6)(c)	The section of the framework, and the draft regulations, which deal with property exposures use the terms "servicing" and "repayment" interchangeably. This is incorrect as strictly speaking "repayment" would exclude interest payments, whilst servicing includes both principal and interest payments. The applicable sections of the draft regulations are sub-regulation 6(c)(i)(B), 6(c)(xi), 6(d) and 6(d)(i).	Recommend that the term "servicing" be used consistently.	The use of the words "servicing" and "repayment" are used consistently and in line to the Basel framework.
36.	23(13)(b)(v) (D)(v)	Some of the currently approved A-IRB models might not comply with new regulations. Will there be an expectation for all models to be compliant on 1 January 2024 or will a phased- in approach be considered given the model development and approval processes?	Recommend a phased-in approach	The PA will in due course communicate further details and practical arrangements with regards to the effective implementation of the revised IRB approach and related impact.
37.	3(f) / sub-regulation (6)(c)(ii)	The final framework, in section 20.71(1) excludes agricultural and forestry land from the requirement that property must be "completed" to qualify for treatment as regulatory real estate exposures. New sub-regulation 6(c)(ii) omits this exclusion. Therefore, it is not clear how agricultural and forestry land lending should be treated – is it the intention for such property lending to be treated as uncollateralised? This seems extremely punitive and not aligned with the framework.	Recommend that the draft regulations be aligned with the final framework.	When regulation 23(6)(c)(i)-(ix) of the Regulations is read in its broader context, agricultural forestry land will not qualify for treatment as regulatory real estate because of other operational criteria. Accordingly, the default risk weight is 100%, unless specified differently. Therefore, a risk weight of 100% should be used in this regard.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
38.	3(f) / sub-regulation (6)(c)(ii)	CRE 20.71(1), includes a national discretion that a supervisor can exempt certain residential properties from the requirement that to qualify as regulatory real estate exposures it should be fully completed. This is under the proviso that the property is a one-to-four-family residential housing unit that will be the primary residence of the borrower and the lending to the individual is not, in effect, indirectly financing land acquisition, development and construction exposures. In new sub-regulation 6(c)(ii) reference is made to ADC exposures which may be treated as regulatory real estate exposures, subject to certain conditions. Given that, should we apply the national discretion as set out in the final framework, a material sub-asset class could potentially fall within this discretion and its treatment as a "regular" property exposure, banks will need to understand what these conditions would be. The national discretion recognizes the fact that owner-occupied property under construction has inherently lower risk than property being developed by a developer. It also recognizes that properties are often built to serve as the primary residence for an extended family.	Clarify	Draft 2 of the Regulations includes the enabler, and the PA will address this clarification question via Tier 3 legislation if required.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
39.	3(f) /sub-regulation (6)(c)(iii)	In the Legal enforceability criteria, define a "reasonable" timeframe for liquidation.	Clarify	The PA is of the view that any further guidance will be unduly prescriptive. What is reasonable will depend on bank-specific circumstances and relevant collateral. The PA expects banks to exercise professional judgement based on the facts and circumstances and in line with the context and spirit of regulation 23(6) of the Regulations.
40.	3(f) /sub-regulation (6)(c)(v)(C)	Provide clarity on the independence of property valuation (footnote 33 in the framework (CRE 20.75) states that valuation must be done independently from the bank's mortgage acquisition, loan processing and loan decision process. This clarification has been omitted from the draft regulations). This omission may leave the requirement open to different interpretations. See appendix F for more feedback	Clarify	Draft 2 of the Regulations has been amended to incorporate footnote 33.
41.	3(f) /sub-regulation (6)(c)(v)	We are concerned by the limitations placed on the recognition of upward adjustments to property valuations. See appendix F for more detailed feedback.	Clarify	Please refer to the PA's response to comment 1.
42.	3(f) /sub-regulation (6)(c)(v)	Can current valuations be used for refinancing transactions instead of the original property valuation at first inception?	Clarify	Please refer to the PA's response to comment 1.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
43.	3(f) / sub-regulation 6(c)(viii)	BCBS128 referred to "Lending fully secured by mortgages on residential property that is or will be occupied by the borrower, or that is rented" to qualify for treatment as "regulatory real estate exposures". This wording has not been retained in the final framework and the only mention the final framework makes of an "occupation" requirement is under the requirement that the financed property must be "completed", in the context of certain property exposures under construction that can be treated as "regulatory real estate exposures" if the property will be the primary residence of the borrower (which is a very strict application and also does not include properties to be rented out). Historically, the South-African regulations have included an extended requirement under the requirement that a property must be "occupied." We are questioning the appropriateness and practicality of a requirement that the financed property must be a "principal residence of the borrower or a tenant.	Recommend that the draft regulations be aligned to the text in the framework which simply states that a residential real estate exposure is "secured by immovable property that has the nature of a dwelling and satisfies all applicable laws and regulations enabling the property to be occupied for housing purposes (i.e., residential property)."	The PA's view is that draft 1 of Regulations is aligned to the Basel framework, and the wording is a deliberate policy position of the PA. The PA will however consider issuing Tier 3 legislation to provide guidance on the interpretation and application of the broader real estate asset classes taxonomy in the revised standardised approach.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
44.	3(f) / sub-regulation (6)(c)(xii)	The bank's interpretation of the definition of "land acquisition, development and construction" exposures is that it is like HVCRE exposures. The proposed changes to the BA returns suggest that the definitions are aligned. In other words, what would be classified as HVCRE under the IRB approach would be classified as ADC under the standardised approach? See appendix G for more information.	Clarify	Please refer to the PA's response to comment 32.
45.	3(f) / sub-regulation (6)(c)(xii)	Certain ADC exposures potentially qualify for a lower risk weight. The draft regulations stipulate the conditions as follows: - Robust and prudent underwriting standards must be in place - Pre-sale or pre-lease contracts amount to a significant portion of total contracts - The purchaser/renter must have made a substantial cash deposit which is subject to forfeiture if the contract is terminated, and - Equity at risk should be determined as an appropriate amount of borrower-contributed equity to the real estate's appraised completed value.	Clarify the following: - What would be considered "robust" and "prudent" underwriting processes and standards? - The definition/quantification of what a "significant" portion of total contracts means? - The definition/quantification of "substantial" equity at risk means? Clarify the definition/quantification of what "substantial" cash deposit means.	In the PA's view, any further guidance in this regard is likely to be unduly prescriptive. Ordinarily, these will depend on bank-specific circumstances and underwriting policies banks have in place. Banks are nonetheless welcome to approach the PA, bilaterally, to seek clarity.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
46.	Sub-regulation 6(d)(i)	Footnote 39 to CRE 39.8 provides for national discretion on the treatment of IPCRE. If a property market passes the "hard test," the risk weights applied can be the same preferential risk weights applied to exposures where the risk of the borrower does not materially depend on the performance of the property. The European Union, the European Banking Authority's view is that the use of the hard test has been successful in providing an incentive for institutions to reflect real estate market deteriorations in the property values recognised for regulatory purposes in a timely and forward-looking manner. This ensures that property markets continue to meet the loss thresholds in a downturn when real estate prices are falling. By doing so, the part of the exposure that is treated as secured (before or after a haircut) is reduced, while the unsecured part increases, which increases the overall own funds' requirements (under the loan splitting approach). Consequently, realised higher losses (if any) will be absorbed by the increased part of the exposure that is treated as being unsecured and therefore no longer benefits from the preferential risk weight for the fully and completely secured part. As such, the European Union is retaining the possibility for member states to apply the hard test to both IPRRE and IPCRE.	Recommend, in addition to allowing South-African banks to use the loan splitting approach (see appendix F), that the PA exercises their discretion under footnote 39 as we believe this will have a positive impact on overall prudence and risk sensitivity, and of course based on an assumption that the South-African market meets the thresholds (which we believe may well be the case).	The decision to use the whole loan approach was a PA policy stance after consultations with industry. It was also a PA deliberate policy decision not to exercise the discretion in footnote 39.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
47.	3(h) / sub-regulation 6(e)(ii)	This requirement in the draft regulations has been retained from the current version. It requires that the secured portion of the exposure should be risk weighted at 100%, "provided that the bank obtained adequate eligible collateral and raised a specific credit impairment equal to or higher than 15% of the outstanding exposure". BCBS128 contains this provision but it has not been retained in the final framework (BCBS424). In both the current version of the regulations and the draft regulations there are some important departures from the text in BCBS128. 1. BCBS128 requires that the past due loan should be fully secured by ineligible collateral. The draft regulations only require that adequate eligible collateral is in place. This is the complete opposite requirement. Given that "eligible" collateral will reduce the exposure it is not clear what the intention is here. 2. BCBS128 instructs supervisors to set "strict operational criteria to ensure the quality of collateral" (that is referring to the ineligible collateral recognised here). The regulations provide no operational criteria.	Recommend that the PA reconsider the inclusion of this specific provision. If they decide to retain it, we recommend that the draft wording be amended to make clear the requirement pertains to situations where past-due loans are fully secured by otherwise ineligible collateral and that operational criteria then be provided.	Operational requirements will not be included in the Regulations. However, draft 2 of the Regulations has been amended to remove item (ii).

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
48.	3(h) / sub-regulation 6(e)	The regulations setting out the treatment of defaulted exposures under both the simplified and standardised approach are set out in sub-regulation 6(e). A reading of that section however shows that it only pertains to retail exposures and residential real estate exposures. We assume that the exclusion of wholesale exposures here is an oversight.	Clarify	Draft 2 of the Regulations has been amended, to read "an exposure" instead of a "a retail exposure".
49.	3(j)/ sub-regulation 6 (g)	The final framework provides for a national discretion that allows a carve-out from the definition of commitment. Refer to Appendix H for more detailed feedback	Clarify	Draft 2 of the Regulations has been amended to include the carve out and related requirements.
50.	3(j)/ sub-regulation 6(g)Table 1	The change in the treatment of cancellable facilities from 0% to 10% could have a cliff effect upon adoption.	To promote the orderly transition from 0% to 10% CCF for cancellable commitments, and to minimize the immediate impact on the cost of funding for our clients, we recommend a phased-in approach for example over a five-year period.	The PA takes note of the suggestion but is nonetheless not supportive of a 5-year phase-in proposal.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
51.	3(j)/ sub-regulation 6(g) Table 1	The draft regulations, in line with the final framework, propose a CCF of 50% for performance-related guarantees. This would apply to technical guarantees in the trade finance space. These types of guarantees, unlike LCs, are not expected to be drawn. Draw-down is dependent on a commercial event (e.g., a contract breach) and they are not issued in support of lending (where draw-down has already taken place). Historical data from both the International Chamber of Commerce ('ICC') and Global Credit Data ('GCD') shows that typically, technical guarantees have very low drawing rates and even if a company should default, most guarantees are not called upon. ICC and GCD data shows that even a CCF of 20% is highly conservative compared to realised CCFs of about 0.24% (https://iccwbo.org/publication/icc- trade-register-report/). A CCF of 50%, therefore, seems excessive and inappropriate. This high CCF means trade finance costs more and can discourage business activities. SMEs, who are so dependent on access to trade finance, are especially disadvantaged. Excessive pricing (especially when the CCF is considered with other changes leading to a material impact in capital cost for trade finance exposures) will lead to an outflow of business from banks to other industry participants such as insurance companies.	Recommend that technical guarantees be treated like short-term self-liquidating letters of credit with a CCF of 20%.	It is the PA's policy position to only deviate from the Basel framework if compelling evidence warrants it. In this regard, the PA is of the view that the evidence is still in favor of aligning the Regulations with the Basel framework.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
52.	3(y) / sub-regulation 8 (a) table 1	Clarify if "Financial Institutions" include holding companies of financial institutions.	Clarify	The term financial institution in this context does not include holding companies of financial institutions.
53.	sub-regulation 8(a) Table 1 footnote 5 & 13	Both these footnotes refer to the treatment of certain counterparties incorporated in jurisdictions where they are subjected to equivalent prudential supervision.	Recommend the PA issue a directive on these countries. See point 52 (sub-regulation (11)(d)(ii) (A)) below for more feedback on this.	Noted. Please refer to the PA's response to comment 78.
54.	sub-regulation 8(a) Table 1 footnote 9	According to this footnote, the sovereign floor does not apply to short-term self-liquidating letters of credit. The final framework, in section 20.32, clarifies that in this context short-term means a maturity below one year.	Recommend that this clarification is added to the footnote.	Draft 2 of the Regulations has been amended to include footnote 9.
55.	sub-regulation 8(a) Table 1 footnote 14	This footnote states that exposures to individuals cannot be included in the corporate asset class. Sub-regulation 6(b)(ii)(C)(ii) however states that no derivative exposures can be included in the retail portfolio. Our understanding is that such exposures should be classified as corporate exposures.	Clarify	Correct, such exposures should be classified in corporate asset class.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
56.	3(y) / sub-regulation 8 (a) Table 1 footnote 17	Unrated corporate exposures have been prescribed to have the sovereign floor applied, however, the way it is being applied is inconsistent with unrated bank exposures. Sub- regulation 8(a)(iii)(D) accounts for the transfer and convertibility risk when dealing with unrated bank exposures, but this has not been similarly applied to unrated corporate exposures, thus not considering the risk profile of unrated corporate exposures which are in the local currency of the jurisdiction of the bank. We propose the same treatment for corporates as is proposed for banks with regards to the sovereign floor in that it should apply to transfer and convertibility risk and not to all corporate exposures i.e., with due consideration of the currency component of the specific exposure. We note that the final framework did not retain the sovereign floor for corporate exposures at all.		Draft 2 of the Regulations has been amended to remove footnote 17.
57.	3(y) / sub-regulation 8 (a) (iii)	Clarify what timeframe would apply to the financial information used for the bucketing of unrated banks. Can it be the latest published annual information, or must it be updated when/if banks make their quarterly capital disclosures?	Clarify	The PA will update Guidance Note 9 of 2022 to provide clarity on the requirement.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
58.	(y) / sub-regulation 8 (a)(iv) & (v)	The draft regulations include both the External Credit Ratings Approach and the SCRA approach for corporate exposures. We support the continued use of external ratings but are concerned by the impact of a 100% risk weight for unrated corporates given low external rating coverage in South Africa. Refer to Appendix C for more detailed feedback on this.	Support the continued use of external ratings but are concerned by the impact of a 100% risk weight for unrated corporates given low external rating coverage in South-Africa	The 100% risk weight for unrated corporate exposures is prescribed under ECRA for jurisdictions that allows for the use of external credit ratings. Accordingly, the PA will retain the risk weight in line with agreed international global standards.
59.	3(y) / sub-regulation 8 (a) (iv)(C)	This section requires banks to notify the Prudential Authority of their nominated ECAIs.	Clarify what form the nomination notification must take and by when we need to submit our nominations in anticipation of a go-live date of January 1st, 2024.	The PA will update Circular 2 of 2011 to clarify the process banks must follow to notify the PA of their nominated ECAIs.
60.	3(y) / sub-regulation 8 (a) (iv)(D)	We note the importance of the due diligence process and the emphasis placed on it in the cover directive to the draft regulations. We are seeking guidance on what would be considered an "appropriate" due diligence process. For example, should it include a mapping of internal grades to external grades? Do we need to perform a detailed line-by-line analysis and comparison of the rating agency analysis underpinning the external rating to our internal credit assessment?	Clarify	The underlying principle for the dule diligence requirements is for banks not to mechanistically rely on external credit ratings, but to complement them with internal credit assessments captured by the due diligence requirements. Moreover, the intention is not to prescribe any new requirement beyond the credit risk assessment process banks currently have internally as part of their credit risk management processes. To create consistency amongst banks in the interpretation and application of the due diligence requirements, the PA will issue Tier 3 legislation to provide further guidance and expectation in this regard.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
61.	3(y) / sub-regulation 8 (a) (vi) (A) (iii)	In relation to the definition of commodities finance.	Recommend PA define "short term."	The PA does not consider it prudent nor desirable to define short term in the context of commodities finance. Moreover, the tenor of exposure is but one of other factors banks must consider when classifying exposures in the commodities finance asset class.
62.	3(bb) / sub-regulation 8 (d)	This paragraph states "lending fully secured by mortgage" but it also references sub-regulations (6)(d) which state "lending secured by mortgage". See appendix G for more detailed feedback.	Clarify which exposures the bank should be classified as commercial real estate, i.e., fully secured mortgage exposures, or all exposures secured by mortgage regardless of the percentage of exposure secured	The comment is not entirely clear, and the PA seeks further clarity. However, the PA takes note of the concerns and confusion raised by various comments on the real estate asset class definitions under the revised Standardised Approach and its links to the BA200 regulatory returns. In this regard, the PA will issue further guidance in the form of Tier 3 legislation in due course to clarity requirements in this regard.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
63.	3(ii) / sub-regulation 9 (b) (iii) (B)	Credit-linked notes ("CLNs") issued by the bank as mitigation for banking book exposures qualify as eligible cash collateral under the comprehensive approach. However, the regulations omit the framework that requires that only CLNs that fulfill the criteria for credit derivatives can be recognised. Sub-regulation 9(b)(ii) states that overarchingly eligible financial collateral as per sub-regulation (iii) must meet the relevant requirements and conditions in sub-regulation 7(b). Sub-regulation 7(b) however does not include any conditions for credit derivatives. Credit derivatives are covered in sub- regulation 9(d).	Recommend that the draft wording be amended to reflect a reference to sub-regulation 9(d).	The expectation to comply with the requirements specified in regulation 23(9), in addition to regulation 23(7) is already covered. Please refer to regulation 23(9)(b)(ii) of the Regulations.
64.	3(ii) / sub-regulation 9 (b) (iii) (C)	Does the definition of gold include synthetic positions or is it only bullion?	Clarify	Only gold bullion

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
65.	3(ii) / sub-regulation 9 (b) (iii) (A)	Per section 22.34 footnote 34 of the final framework and revised sub-regulation 9(b)(iii), when cash on deposit, certificates of deposit or comparable instruments issued by the lending bank are held as collateral at a third-party bank in a non-custodial arrangement, if they are openly pledged/assigned to the lending bank and if the pledge/assignment is unconditional and irrevocable, the exposure amount covered by the collateral (after any necessary haircuts for currency risk) receives the risk weight of the third-party bank. Following on from that we assume that under the F-IRB approach, such collateral will be treated as a guarantee from the third-party bank.	Clarify if you agree with this interpretation	The PA agrees with the interpretation. However, this is subject to compliance with the requirements of regulation 23, sub-regulations (7), (9) and (12) of the Regulations.
66.	3(mm)/sub-regulation (9)(b)(vii)(B)	The final BIS framework has not retained the option for banks to apply their estimation of CRM haircuts, but the draft regulations still allow for this.	Clarify if the internal estimation of haircuts will remain an option in the final regulations.	Draft 2 of the Regulations has been amended to delete reference to the estimation of own haircuts.
67.	3(qq) / sub-regulation 9 (b)(iii)(D) and 9(b)(xi)	Given that all provisions that apply to direct exposures also apply to collateral providers the assumption is that only collateral with ratings from nominated ECAIs are eligible.	Clarify	Correct. In this regard, the PA will amend Circular 2 of 2011 to clarify the process banks must follow to notify the PA of their nominated ECAIs.
68.	3(qq) / sub-regulation 9 (b)(iii)(E)	Under this section, the PA can disallow certain collateral as eligible where it believes that the instruments are no longer sufficiently liquid.	Clarify and provide information in the regulations on how declarations under this section will be made.	Noted. The PA is of the view that clarification is not warranted at this stage. As part of its supervisory processes, and as and when the need arises, the PA will issue guidance communicating conditions under which certain collateral will be disallowed. This will follow a public consultation process.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
69.	3(qq) / sub-regulation 9 (b) (xi)	Following on to point 41 above - if securities not rated by a nominated ECAI are considered ineligible, can it be recognised in the case of SFT-type transactions, subject to the provision in sub-regulation 9(b)(i)(C)(v)? Further, does sub- regulation 9(b)(i)(C)(v) only refer to securities which would otherwise be eligible if they had been rated by a nominated ECAI or does it also include any other type of collateral?	Clarify	Where the draft Regulations refers to ECAI this must be read to mean nominated ECAIs. Therefore, securities and any other collateral rated by an ECAI that is not nominated is ineligible.
70.	sub-regulation 9(b)(xi)(A)	The final framework allows for securitisation securities to be considered eligible under the comprehensive approach. The revised haircut table in this section however does not include the requirement that such securitisation exposures must meet the definition in the securitisation framework.	Recommend that the table be amended to include this reference.	Agree. Draft 2 of the Regulations has been amended to include the reference.
71.	Sub-regulation 9(b)(xi)(E)	We are recommending that the PA does not adopt the framework for minimum haircut floors on SFTs at this stage, in line with most other regulators. See appendix D for our detailed feedback on this section.	Recommend that the PA do not adopt the framework for minimum haircut floors on SFTs at this stage, in line with most other regulators	For now, the PA will retain the framework in the draft Regulations. The PA wishes to consult further with banks and other role players before making a final decision in this regard.
72.	3 (t)/(fff)/(hhh)/(uuu)/ sub-regulation 9 (c)(ii)	Under the final framework, only outright protection bought under credit derivatives are eligible as mitigation. First-to-default and all other nth-to-default credit derivatives are not eligible, yet the draft regulations have not specified that these are not eligible.	Clarify	In draft 2 (and draft 1) of the Regulations, first-to-default and nth-to-default credit derivatives are not eligible as credit risk mitigants (when obtaining protection).

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
73.	3(fff) / sub-regulation 9(c)(ii)(E) and 9(d)(iii)	The final framework specifies that all MDBs are eligible protection providers. The draft regulations specify that only zero-rated MDBs are eligible. The draft regulations omitted this asset class from sub-regulation 9(c)(ii) & 9(d)(iii).	Clarify	Draft 2 of the Regulations has been amended, and accordingly all multilateral development banks (MDB) are eligible protection providers.
74.	3(fff) / sub-regulation 9(c)(ii) and 9(d)(iii)	Clarify if guarantees and credit derivatives provided by externally rated parents, subsidiaries or affiliated companies to the obligor qualify as eligible protection providers in line with section 22.76(2) of the final framework.	Clarify	Proviso included in regulation 23(9)(c)(ii) of the Regulations.
75.	3 (t)/(fff)/(hhh)/(uuu) / sub-regulation 9 (c) (ii)	Should the term "guarantee" be read to include reference to "credit insurance", on the assumption that it is equivalent to a guarantee in terms of economic substance even though it is not in terms of legal form?	Clarify	No. Please refer to the eligibility criteria.
76.	3(tttt) / sub-regulation(11)(c)(iii)(B)	The draft regulations are not clear on the treatment of exposures to Public Sector Entities under the IRB approaches. See appendix B for more context.	Clarify	Noted. The PA is in the process of finalising a Directive on the treatment of local government and public sector entities (PSE) under the advanced internal ratings based (AIRB) approach. This follows from the discussion paper published in 2021, "Consultative document on the modelling of local government and PSE portfolios". The PA will use this Directive to clarify the treatment of PSEs in the context of the IRB revisions.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
77.	3(bbbbb) / sub-regulation (11)(d)(ii)(A)	We are recommending that the PA exercises its discretion to direct all banks to use effective maturity for portfolios on the F-IRB approach. See appendix E for more information.	Recommend that the PA exercises its discretion to direct all banks to use effective maturity for portfolios on the F-IRB approach.	Please refer to the proposed directive on threshold amounts recently issue by the PA for public comment. The calculation of effective maturity for portfolios under FIRB is addressed in the proposed Directive. Accordingly, the exemptions outlined in regulation 23(13) of the Regulations with regards to the calculation of effective maturity will apply to portfolios under the FIRB approach.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
78.	sub-regulation (11)(d)(ii) (A)	We understand and support that the asset value correlation adjustment set out under this sub-regulation reflects the increased systemic risk associated with certain financial institutions. Systemic risk is expected to be lower where a counterparty is both (i) subject to a high standard of prudential regulatory oversight; and (ii) relatively small. This requirement does however leave banks with many interpretative issues: 1. We are seeking guidance on comparable prudential regimes including a) jurisdictions where bank and securities firm prudential supervision is considered non-equivalent and b) treatment of insurance regimes. This links with the requirements for prudential equivalence under the standardised approach. 2. Clarify whether third-country financial institutions, who are not subject to equivalent prudential supervisions themselves but who are part of a group which are subjected to equivalent prudential treatment on a group consolidated basis can be treated as meeting the prudential equivalence requirement	Clarify Clarify Clarify	1. The PA's view in this regard is that any further guidance runs the risk of becoming unduly prescriptive. Individual banks are welcome to approach the PA bilaterally for clarity on specific and relevant cases. In principle, this will most often refer to jurisdictions internationally agreed prudential standards (whether in insurance, banking, or prudential standards for other industries), and in which the entities are subjected to prudential requirements and supervision. 2. There are some third world countries that adopted comparable prudential regimes and will easily comply with this requirement. Such countries can and must be assessed on a standalone basis against this requirement. The response to the question is therefore no.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
		3. Does the requirement for a correlation adjustment apply to financial institutions that are public sector entities such as the Development Bank of South Africa? 4. We are seeking clarification on the application of the correlation adjustment to collective investment scheme managers. Banks' exposures will be to the managers of such funds rather than the schemes and given that the schemes themselves cannot be considered "financial institutions" our view is that exposure to scheme managers also falls outside of the definition of a "financial institution." 5. Does the correlation adjustment apply to entities that are not "large" on their own, but belong to a group which can be considered large (i.e., above the total asset threshold)? In some jurisdictions such as the EU, such entities would not be subject to the correlation adjustment	Clarify Clarify Clarify	3. The paragraph refers to regulated financial institutions i.e., "regulated entity is defined as a parent and its subsidiaries where any substantial legal entity in the consolidated group is supervised by a regulator that imposes prudential requirements consistent with international norms". 4. These will fall under unregulated entities (legal entities whose main business includes management of financial assets, lending, investments, etc.). Accordingly, the correlation parameter and multiplier will apply to such entities. 5. The requirement states "regulated financial institutions whose total assets are greater than or equal to". There is therefore no reference to total assets of the group of which the entity may be a part.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
		6. Sub-regulation 12(d)(iii)(A)(ii) states that in cases where we have a guarantee, the risk-weight function applicable to the guarantor should be applied to the protected portion of the exposure. Our understanding of this requirement is that if the guarantor is a "large" financial institution or an unregulated financial institution, which would on its own attract a correlation adjustment, the AVC adjustment would then apply to the secured portion.	Clarify	6. The PA will issue Tier 3 legislation to clarity appropriate interpretation and application of this requirement.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
79.	Sub-regulation 11(d)(ii)(B) & regulation 21	The draft regulations reflect a slight change in wording: "the capital requirement (K) shall be equal to the higher of zero and the difference between the exposure's LGD and the bank's best estimate of expected loss. The risk-weighted amount in respect of the defaulted exposure shall be calculated through the application of the formula specified below. RWA = K x12,5 x EAD". A definition is provided for the best estimate of expected loss ('BEEL') - it must be equal to, or higher than, the specific impairment. The revised wording implies that for defaulted exposure under the foundation approach we will hold capital based on the RWA calculated. The text in regulation 21 has also been amended making it clear that for exposures on the foundation approach, the expected loss must be set based on the prescribed (regulatory) LGD under sub-regulation 11. So, for defaulted exposures, we will hold capital (given that the regulatory LGD will likely be disconnected from the actual impairment setting process) and then banks will also potentially have an EL shortfall deduction – a double whammy. We believe that this is not the intention of the framework.	Recommend that the PA set RWA for defaulted exposures under the foundation IRB approach at zero (as some regulators such as APRA does), which means that the difference between the calculated EL based on the regulatory LGD, and the specific impairment will be recognised in the EL shortfall calculation	The PA is conducting further studies on the impact of this requirement in view of the revised IRB approach. The PA will communicate its policy position, if any, in due course. The requirements will however be retained as is in the draft Regulations.
80.	3(ddddd) / sub-regulation (11)(d)(ii) (C)	Confirm if the firm size adjustment can be used for other asset classes such as specialised lending.	Confirm	The PA confirms the interpretation.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
81	sub-regulation (12)(d)(ii)	The final framework allows for all MDBs to be considered eligible guarantors under the standardised approach, as well as other externally rated entities with a lower risk weight than the client. In the draft regulations, under the "comprehensive" standardised approach, as far as it pertains to MDBs, only zero-rated-MDBs are specified as eligible guarantors (see point 51 above). Non-zero-rated MDBs would thus qualify if they have an external rating. Under the foundation approach, however, only those guarantors who are eligible under the "simplified" standardised approach are considered eligible guarantors – that would include only guarantors who qualify for a risk weight of 20% or better. In cases where we receive a guarantee from a non-zero-rated MDB who is not internally rated the guarantee would most likely not be considered eligible for our F-IRB RWA calculations (For example, Afrexim has an external rating of BBB which means its risk weight under the standardised approach will be 50%). Similarly, any guarantee from a non- internally rated bank or corporate with an external rating of A+ or worse will not be considered eligible. For exposures on the advanced IRB approach, where we receive a guarantee from a guarantor on the F-IRB approach, we will also have a non-eligibility issue where the guarantor is not internally rated.	Recommend that the text be amended to refer to the "standardised" approach (sub-regulation 9) for eligibility and not the "simple" standardised approach under sub-regulation 7.	Draft 2 of the Regulations has been amended. Accordingly, all MDBs are eligible guarantors.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
		Given the vital role that institutions such as Afrexim and TDB play in African trade finance, this treatment under the current draft regulations could have a detrimental, and we believe, unintended impact on the cost of a trade. We are recommending that the PA align guarantor eligibility to the text in the final framework (section 32.23) which specifies that all guarantors eligible under the standardised approach are eligible under the F-IRB approach, as well as internally rated guarantors		
82.	3(ddddd) / sub-regulation (11)(d)(ii)(C), 13(d)(i)(A)(i)(cc)(i), and regulation 67(a)(ii)	In both the final framework and the draft regulations, certain terminology is used inconsistently, with the terms "sales," "turnover" and "revenues" used inter-changeably. Although arguably these terms are very close in definition, they do not necessarily have the same meaning. We are recommending that: a) the wording in the draft is aligned between the standardised approach and the IRB approach, and b) that terminology is used consistently across approaches. The framework and the draft regulations make clear that the assignment of corporate clients to the F-IRB approach must be based on audited accounts. The regulation on firm-size adjustment does not mention audited accounts. It seems fair to assume that: 1) SME corporate classification under the IRB approach must thus also be based on audited accounts and	Recommend that: a) the wording in the draft is aligned between the standardised approach and IRB approach, and b) that terminology is used consistently across approaches.	The draft Regulations are aligned to the Basel framework in this regard, and the framework makes explicit reference to audited accounts. Any other wording will, in the PA's view be a deviation from the Basel framework.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
		2) that where audited accounts are not available, clients should by default be classified as "large corporate" and treated under the F-IRB approach. This seems a disproportionately punitive treatment. Under the South African Companies Act, not all corporates are required to have an audit of financial statements, and some need neither audited accounts nor "reviewed" accounts. Therefore, we are recommending that the draft regulations are aligned with the Companies Act in this respect. This means that where, under that act, a company must have audited accounts we rely on those for classification and where a company is not required under the act to have audited accounts, we use either the "reviewed" accounts or internally prepared annual accounts. In practice, all private corporate groups with a public interest score ('PIS') above 100 and internally prepared financial statements as well as private corporate groups with a PIS greater than 350 will be required to have audited accounts. All public companies are required to have audited accounts. So almost certainly, all corporates who would fall above the required threshold for "large corporate" classification (wherever it may be calibrated) will need to have audited accounts.		

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
		Other corporates (for example those with a PIS less than 100 and those with a PIS greater than 100 and less than 350 but with independently prepared financial statements) will not require audited accounts but will (by way of their PIS) have revenues below the threshold. Adoption of the proposed approach will address the issue that may arise on smaller corporates who do not have audited accounts and may then by default be classified as large corporate or who may need to incur additional costs to retain an auditor whilst it is not required under the Companies Act. The proposal will also address the inconsistency in the requirement for SME corporate classification between the standardised approach (where no mention is made of an audit requirement) and the IRB approach where an audit requirement is inferred. Overarchingly, we are requesting a carve-out from the requirement that classification be based on reported figures where we have an exposure of less than R5 million to a group of connected counterparties. A precedent for this exists for example the Australian Prudential Regulatory Authority has specified that where revenue data is missing or invalid (i.e., outside the range of possible values), the bank must treat the client as SME Corporate for firm-size adjustment		

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
		purposes and apply a turnover value around the midpoint between the bottom and top end of the firm-size adjustment range. So, for example, based on the current threshold, it will be set at R200 million.		
83.	sub-regulation (11)(d)(iv)(D)	Retail exposures in default – the draft regulations instruct banks to use an LGD of 10% in the case of residential real estate exposures. We believe this was an oversight as the LGD floor in the final framework (CRE 32.58) is now 5%.	Clarify	Agree. Draft 2 of the Regulations has been amended to reflect an LGD floor of 5%.
84.	sub-regulation (12)(b)(ii)(B)(v)	Under this section of the regulations, the PA is required to specify in writing which types of physical collateral are eligible as mitigation under the F-IRB approach.	Recommend the PA issue a directive which sets out these eligible collateral types.	The PA will consider issuing a directive providing physical collateral types.
85.	3(cccccc) / sub-regulation (12)(d)(iii)(A)(ii)	When we have unfunded CRM for exposure to a counterparty treated under the IRB approach from an entity which is not a client and for whom no probability of default is available, do we apply the standardised approach eligibility criteria and the standardised approach RWA calculation to the secured tranche?	Clarify	It should be treated in terms of how the bank treats unrated exposures. If the bank applies the standardised approach to treat unrated exposures, regulation 23(12)(d)(ii)(C) of the Regulations applies.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
86.	3(cccccc) / sub-regulation (12)(d)(iii)(A)(ii)	Where a customer is treated under the F-IRB approach, but the protection provider (if faced directly) is treated as A-IRB, do we treat the covered portion as an exposure against the protection provider using all protection provider parameters as well as risk weight function (Therefore A-IRB)?	Clarify	When an exposure is rated applying the FIRB approach, the regulatory requirements relating to collateral under the FIRB approach will still apply i.e., eligibility criteria, credit conversion factors, etc. However, in practice the PA expects IRB banks to reflect the risk mitigation effect of credit guarantee by adjusting either the PD ratio or LGD but not both at the same time, and only in exceptional circumstances to use the risk weight function of the guarantor.
87.	3(cccccc) / sub-regulation (12) (d) (iii) (A) (ii)	Where an obligor on the F-IRB approach pledges the surrender value of life insurance policies as credit mitigation our understanding is that it should be treated as funded credit protection but assigned the PD of the insurance company providing the life insurance.	Clarify	When an exposure is rated applying the FIRB approach, the regulatory requirements relating to eligible collateral of the FIRB approach will still apply. Please refer to regulation 23(12)(b)(ii) of the Regulations regarding the eligibility criteria.
88.	sub-regulation 12(g) & 14(f)	We note that the double default framework has been retained in the draft regulations. The final Basel framework did not retain this.	Clarify if this will remain available to banks.	Agree. Draft 2 of the Regulations has been amended to remove the double default approach.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
89.	sub-regulation 14(b)(ii)(E)	The computational requirement to apply an LGD input floor is based on the rules for the F-IRB approach. Under the A-IRB approach, there is no regulatory prescription around what types of collateral will be eligible. Under the F-IRB approach, however, the regulator is required to specify what other types of physical collateral would be considered eligible. A situation could arise where a certain type of collateral is used as mitigation in the A-IRB modelling process whilst that type of collateral is ineligible under the F-IRB approach. Theoretically, it can be interpreted that a haircut of 100% is applied in the calculation of the input floor. We believe that this is not the intention of the framework.	Recommend that the draft regulations be amended to provide clarity on this. Specifically, it should be clear that any collateral used for A-IRB modelling/mitigation should be considered "eligible" for purposes of A-IRB LGD input floor calculation and attract a 40% haircut.	When an exposure is rated applying the FIRB approach, the regulatory requirements relating to eligible collateral for the FIRB approach will still apply. Please refer to regulations 23(12)(b)(ii) of the Regulations regarding the eligibility criteria.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
90.	sub-regulation 13(d)(i)(A)(i)(cc)	Given that non-zero-rated MDBs are treated as banks, those counterparties would be risk weighted under the F-IRB approach. In South Africa and the wider region, MDBs such as Afrexim and the Trade and Development Bank ('TDB') play a vital role in supporting and facilitating trade on the continent. Without their support, countries considered as high risk would otherwise be excluded from trade activities on the African continent and with the rest of the world. Development institutions like Afrexim and TDB will play a vital role in the embedment of the African Continental Free Trade Area, thus increasing economic activity on the continent and lifting many communities out of poverty. The current draft regulations would require exposures secured by these non- zero-rated MDBs to be treated under the F-IRB approach given that the approach applicable to a guarantor would determine risk weighting.	Recommend that the African development banks be carved out from this treatment and remain available for risk-weighted asset calculation under the A-IRB approach.	The Basel Committee on Banking Supervision (BCBS) has in place eligibility criteria and processes for including any MDBs on the list of zero risk weighted MBDs. These criteria are applied on a case-by-case basis by the BCBS. Please refer to CRE 20.10 of the Basel text.

91.	3(mmmmmmm) / sub-regulation (14)(c)(iii) (B)	We are asking for clarification on the treatment of unfunded credit risk mitigation in cases where a customer is treated under the A-IRB approach, but the protection provider (if faced directly) is treated under the F-IRB approach. □ Our understanding is that we can either a) apply the substitution approach or b) use the modelling approach. □ Under the substitution approach our understanding is that we will: o substitute the PD with the guarantor's PD. o substitute the LGD with the obligor's LGD if the guarantee is a senior claim but the exposure is subordinated. o apply the F-IRB approach guarantor eligibility criteria. o use the guarantor's risk weight function (and we understand that to mean using the correlation factor and correlation adjustment applicable to the guarantor). o use the effective maturity of the trade. o apply any SME firm-size adjustment pertaining to the obligor; and o apply a guarantor "risk weight floor" calculated using the maturity and LGD applicable to direct exposure to the guarantor Under the modelling approach, our understanding is that we will model the impact of the guarantee (i.e., it is recognised in the modelled PD and/or LGD produced by our approved models) and that should we apply this approach there are no restrictions around the eligibility of guarantors, and we do not use the guarantor's risk weight function. An RWA floor would also not apply.	Clarify	The PA takes note of the requests for clarification on the interpretation of these requirements. Accordingly, the PA will, in due course, update Guidance Note 9 of 2022 to provide clarity in this regard.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
92.	Regulation 67	The regulations specify specific treatment for "financial institutions" in several areas, for example: - Sub-regulation 8(a) table 1 footnote 13: the treatment of financial institutions under the standardised approach. - Sub-regulation 9(c): eligible guarantors. - Sub-regulation 11(c): the definition of a bank. - Sub-regulation 11(d)(ii)(A) – the asset value correlation adjustment; and - Sub-regulation 13(d)(i)(A)(i):the treatment of financial institutions under the IRB approach There is however no definition of "financial institution" in the regulations. Sub-regulation 11(d)(ii)(A) provides a list of types of entities that can be considered "unregulated financial institutions". That list is not complete and leaves uncertainty around the treatment of, for example, - Corporate finance activities - Money broking - Issuing of electronic money - Foreign exchange trading - Medical aids - Pension funds - Nominee companies - Financial advisory firms, and - Remittance businesses	Recommend that the PA define a financial institution in regulation 67. Alternatively, clarify if we can rely on the most recent Institutional Sector Classification Guide for South Africa (Section C.1).	The PA does not consider it prudent to include any definition of financial institutions beyond what is incorporated in the Basel framework (and incorporated in regulation 67 of the Regulations). Banks are welcome to approach the PA, bilaterally, to request specific clarity on the implementation of this requirement.

	REFERENCE IN ACT/BILL/DOCUMENT	COMMENT	PROPOSED WORDING	PA's RESPONSE
93.	23(6)(c)(v)(B)	(B) Unless directed otherwise in writing by the Authority, the bank shall maintain the value of the property as at the date of the relevant loan origination, provided that- (i) the bank shall adjust the aforesaid value downwards when an extraordinary, idiosyncratic event occurs, resulting in a probable permanent reduction in the value of the property. (ii) when the bank previously adjusted the property's value downwards, as envisaged in sub-item (i) hereinbefore, the bank may subsequently make an upward adjustment to the value of the property, but in no case to a value higher than the value of the property at origination. (iii) the bank may take into consideration modifications made to the property after the date of origination of the loan that unequivocally increases the property's value.		Please refer to the PA's response to comment 1.

FirstRand Comments – Proposed amendments to the Regulations relating to Banks 1 January 2024

No	Reference	Comment	PA's response
		THE STANDARDISED APPROACH FOR CREDIT RISK	
1.	Regulations – Table numbers	The tables in every section are renumbered to start with "Table 1" - this makes it difficult to refer to. We recommend that the numbering should be in line with Table numbering in the old Regulations.	Please refer to the PA's response to comment 22 above.
2.	Regulation 23(8)(a)(v)(E)	"in the case of an unrated corporate exposure to an entity, institution or person that is **part of a group** in respect of which the reported annual turnover or sales for **that consolidated group** is less than or equal to such amount as may be directed in writing by the Authority in respect of the **most recent financial year**," We seek clarity on how to define "consolidated group". For example: a) FNB Botswana has an exposure to Coca-Cola Beverages Botswana (Pty) Ltd, who is 50.10% owned by Coca-Cola Beverages Africa (Pty) Ltd, and 49.90% owned by Sechaba Brewery Holdings Ltd. The Coca-Cola Company (listed in USA) owns 66.50% of Coca-Cola Beverages Africa (Pty) Ltd. Control (>50% ownership) ends here. Is the interpretation correct that FNB Botswana should use the turnover of The Coca-Cola Company (listed in USA) to determine the classification of Coca-Cola Beverages Botswana (Pty) Ltd? b) FNB Botswana has an exposure to Puma Energy Botswana (Pty) Ltd, who is 80% owned by Puma Energy Holdings Pte Ltd (in Malta), who in turn is 58.10% owned by Trafigura PE Holding Ltd (in Malta), who is 100% owned by Trafigura Group Pte Ltd (in Singapore), who is 100% owned by Trafigura Beheer BV (in Netherlands).	The PA will address this issue bilaterally with the commenter.

No	Reference	Comment	PA's response
		Is the expectation that FNB Botswana should use the turnover of Trafigura Beheer BV (in Netherlands) to determine the classification of Puma Energy Botswana (Pty) Ltd?	
3.	Regulation 23(6)(c)(v)(A)	"The outstanding amount of the mortgage loan shall include any undrawn committed amount related to the loan,…" We require clarity on whether off-balance sheet portion of the outstanding amount is "pre" or "post" CCF?	Please refer to the PA's response to comment 24 above.
		INTERNAL RATINGS-BASED (IRB) APPROACHES FOR CREDIT RISK	
4.	Amendment (3)(c)(rrrrrr): (13)(d)(i)(A)(i)(cc)	Given the bank shall not be allowed to apply the advanced IRB to certain asset classes, it is the intention of the regulations that the application of the effective maturity calculations in respect of derivatives outlined in current Regulation (13)(d)(ii)(B)(ii) in terms of breaching the 1 year effective maturity floor will not be permitted under the foundation IRB approach?	Please refer to the proposed Directive on threshold amounts issued on 7 March 2023.
5.	subregulation (11)(d)(ii) for item (A)	M is the effective maturity of the relevant exposure, which maturity shall be equal to 2.5 years, unless the exposure relates to a repurchase or resale transaction in which case an effective maturity equal to six months, that is, M = 0.5, shall apply, …….	Refer to the proposed Directive on threshold amounts issued on 7 March 2023.