



Banks Act 94 of 1990

Credit Rating Services Act of 2012

Prudential Communication 11 of 2022

Eligible institutions approved by the Prudential Authority (PA)

Objective of this Prudential Communication

This Prudential Communication serves to notify all banks, branches of foreign institutions, controlling companies and auditors of banks or controlling companies that the PA intends to derecognise Fitch Ratings (Fitch) as an eligible external credit assessment institution (ECAI).

1. Application

1.1 This Prudential Communication is applicable to all banks, branches of foreign institutions, and controlling companies, herein referenced to as banks.

2. Purpose

2.1 The purpose of this communication is to:

2.1.1 notify all banks that the PA intends to derecognise Fitch as an eligible ECAI. Therefore, ratings issued by Fitch may no longer be used in the calculation of regulatory capital requirements.

3. Background and legal framework

3.1 Section 85A of the Banks Act 94 of 1990 (Banks Act) stipulates that no bank or controlling company may in the calculation of its minimum required capital and reserve funds, take into account a credit assessment of an ECAI or export credit agency unless such ECAI or export credit agency has obtained the prior approval of the PA to act as an eligible institution. The process for the approval of an ECAI is set out in Regulation 51 of the Regulations relating to Banks (the Regulations).

4. The use of external credit ratings by banks

4.1 There are two methodologies that banks can use to calculate their capital requirements for credit risk, i.e., either: (i) the standardised approach (which is supported by an external credit rating or assessment); or (ii) the internal ratings-based approach (where subject to the PA's prior written approval, banks are permitted to estimate various component elements of credit risk using their own methodologies).

4.2 In terms of the standardised approach, banks rely on the credit rating assigned by an eligible ECAI (where eligibility is assessed in terms of section 85A of the Banks Act read with regulation 51 of the Regulations) in respect of a particular type of counterparty (e.g., corporate or sovereign) and apply a specified risk weight to such counterparty for purposes of determining the amount of capital it must hold given the credit risk of the particular borrower.

5. The Credit Rating Services Act

5.1 The PA (previously known as the Bank Supervision Department) granted Fitch approval to be recognised as an eligible ECAI in terms of section 85A of the Banks Act, which allowed banks in South Africa to use the ratings issued by Fitch for calculating minimum required capital for regulatory purposes from 1 January 2008 onwards.

5.2 Subsequent to Fitch obtaining its status as an eligible ECAI from the PA, the Credit Rating Services Act, Act No. 24 of 2012 (the CRS Act) came into effect.

5.3 In terms of the section 4(1) of the CRS Act, where a regulated person uses published credit ratings for regulatory purposes, such a regulated person must use credit ratings that are (i) issued or endorsed by credit rating agencies registered in accordance with the CRS Act or (ii) issued or endorsed by an external credit rating agency approved by the Financial Sector Conduct Authority (FSCA).

5.4 In September 2015, the FSCA announced the cancellation of the registration of Fitch as a credit rating agency in terms of the CRS Act. This has since resulted in Fitch being the only eligible ECAI that is not registered in terms of the CRS Act.

5.5 In order for a rating agency to be regarded and granted approval as an eligible ECAI in terms of the Banks Act, the rating agency would be required to first be registered in terms of the CRS Act.

5.6 Banks that have exposures to institutions domiciled outside of South Africa and rely on credit assessments from rating agencies that are approved as eligible ECAs in terms of the Banks Act for purposes of calculating their prescribed minimum amount of required capital and reserve funds, are exempted from the requirements of section 4(1) of the CRS Act.

5.7 This Prudential Communication herewith informs banks of the PA's intention to derecognise Fitch from being regarded as an eligible ECAI in South Africa, within 12 months from 18 July 2022.

6. Enquiries

6.1. For further information about this Communication, please contact the PA via email at PA-Standards@resbank.co.za.

Fundi Tshazibana

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Chief Executive Officer

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