



Financial Sector Regulation Act, 2017 (Act No. 9 of 2017)

Prudential Communication 7 of 2022

Revised market risk and credit valuation adjustment frameworks-minimum guidelines for independent assurance providers related to application submissions

Objective of this Communication

This Prudential Communication sets out minimum guidelines for independent assurance assessments to be conducted for application submissions related to the revised market risk and credit valuation adjustment frameworks.

The Basel Committee on Banking Supervision's (BCBS) Revised Minimum Capital Requirements for Market Risk, also referred to as the Fundamental Review of the Trading Book (FRTB), and the Credit Valuation Adjustment (CVA) framework due for implementation in South Africa on 1 January 2024¹, bears reference.

The Prudential Authority (PA) published an implementation roadmap² for the FRTB and CVA frameworks and an FRTB application suite^{3,4} to guide banks' preparatory programmes towards the implementation of the FRTB and CVA frameworks in South Africa. The FRTB application suite prescribed a requirement for independent assurance assessments to be conducted on specific application submissions. Regulation 46 of the Regulations relating to Banks issued in terms of the Banks Act (No 94 of 1990) imposes specific requirements and duties upon assurance providers of banks. In this regard, the PA developed a set of minimum guidelines (hereto contained in Table 1 of Appendix A) for the attention of independent assurance providers (IAPs) relating to FRTB and CVA application submissions⁵.

For the purposes of the requirements set out in this Prudential Communication, a limited assurance engagement must be conducted. Banks may leverage their internal audit/assurance providers to complete all relevant assurance assessments. Should a bank deem that it has insufficient capacity, capability, and competence to conduct such assurance assessments, it may appoint a suitably qualified external IAP. These requirements on the scope of assurance and the use of internal or external assurance providers may be revised at a later stage.

¹ As per the schedule reflected in Guidance Note 4 of 2021

² <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2021/Prudential-Communication-7-of-2021-Revised-market-and-credit-valuation-risk-frameworks-implementation-roadmap>

³ <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-public-awareness/Communication/2022/Prudential-Communication-1-of-2022-Revised-Market-Risk-Framework-Application-Suite>

⁴ A CVA application suite will be released in due course

⁵ In due course, these minimum guidelines will be integrated into a holistic set of assurance requirements for banks and their assurance providers.

Should banks and their IAPs foresee any challenges in addressing the requirements set out in this Prudential Communication, it remains incumbent upon such banks and their IAPs to engage with the PA thereon in an expeditious manner. Accordingly, all requests for further engagement and information related to this Prudential Communication may be submitted via email to the PA Market Risk Division (PA_RSD-MarketRisk@resbank.co.za), with the relevant PA front line division copied, where applicable.

Yours sincerely

Fundi Tshazibana
Deputy Governor and CEO: Prudential Authority

Date:

Appendix A: Minimum guidelines for independent assurance assessments

Table 1: Minimum guidelines for independent assurance assessments

Index	Guidelines
1	IAPs should comprehensively assess the Prudential Authority's Prudential Standards for the FRTB and CVA frameworks ⁶ to ensure a sufficient understanding of the contents and requirements in order to carry out the independent assurance assessments in a rigorous manner.
2	IAPs must document the criteria used to evaluate responses to application questions, findings, and, where relevant, mitigating controls or the lack thereof in the final assurance report. The assurance engagement must independently test the soundness of the proposals made in application responses.
3	All independent assurance efforts related to model validations must be conducted by suitably qualified individuals with relevant quantitative analysis backgrounds and qualifications. As such, all model validation assurance reports must document such backgrounds and qualifications.
4	IAPs must present the final assurance report for specific application submissions or model validations, inclusive of findings and recommendations, at a bank's highest audit/assurance committee for approval and thereafter, to the bank's board of directors in order to facilitate a comparison against the relevant submissions received from the bank's highest committees responsible for risk, capital, or model governance, as applicable.
5	IAPs must report the outcome of an assurance assessment to the PA with one of the following categories, together with substantive motivations against the analysis performed: <ol style="list-style-type: none">1. Satisfactory2. Satisfactory with room for improvement3. Unsatisfactory with significant room for improvement4. Unsatisfactory

⁶ The draft Prudential Standards will be released by April or May 2022 for consultation.