



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

### Prudential Communication 8 of 2022

#### Revised market risk and credit valuation adjustment frameworks- implementation roadmap<sup>1,2</sup>

##### ***Objective of this Communication***

*This Prudential Communication outlines a high-level and indicative implementation roadmap for 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 Revised Credit Valuation Adjustment framework (CVA), due for implementation in South Africa on 1 January 2024<sup>3</sup>, bears reference.

The Prudential Authority (PA) hereby informs all affected persons of the FRTB and CVA frameworks' implementation roadmaps set out in Appendices A and B, respectively. The implementation roadmap addresses various structural, application, technical, and operational milestones<sup>4</sup>. It is intended to guide project planning initiatives within the PA and across supervised banks ahead of and marginally beyond the implementation date of 1 January 2024. The implementation milestones presented in Appendices A and B may be subject to revision, with due consideration to the impact on banks' preparatory programmes ahead of the FRTB and CVA implementation date<sup>5</sup>.

The capitalisation requirements and milestones are informed by Guidance Note 8 of 2022<sup>6</sup> and will be reflected accordingly in Appendices A and B. In this regard, banks must commence a dual regulatory reporting arrangement from 1 January 2024 and adhere to the existing capitalisation requirements until the PA determines the new binding capitalisation requirements under the FRTB and CVA frameworks. This dual regulatory reporting arrangement includes banks approved to adopt the FRTB-simplified standardised approach.

<sup>1</sup> This Prudential Communication replaces Prudential Communication 7 of 2021

<sup>2</sup> The heading functionality has been activated in this PDF document to assist with navigation

<sup>3</sup> As per the schedule reflected in Guidance Note 4 of 2022

<sup>4</sup> All dates specified in this Prudential Communication will adhere to a modified following business day convention and will roll to the next business day in the South African calendar, should it fall on a weekend or South African public holiday

<sup>5</sup> Dates that have elapsed have been retained from Prudential Communication 7 of 2021 to ensure an integrative record of the implementation roadmap from the point of origin

<sup>6</sup> <https://www.resbank.co.za/en/home/publications/publication-detail-pages/prudential-authority/pa-deposit-takers/banks-guidance-notes/2022/G8-2022-FRTB-and-CVA-capitalisation-requirements>

Further communication will be circulated to banks through the course of implementation, which may include accurate and granular dates and additional information on the technical and processual aspects of the implementation milestones, where relevant. All details behind the submission of applications and other such requirements to the PA will be handled separately but remain informed by the milestones noted in this implementation roadmap. The regulatory reporting metrics, composite returns and business dates for all test submissions will be specified closer to the relevant milestones in purpose-specific communications to be issued to banks. Banks will be advised of the prescriptive technical specifications that must be complied with to transmit (and potentially receive) regulatory data to (from) the PA. The technological and process-related activity streams are captured in Appendices A and B as system and process development and testing (SPDT)<sup>7</sup>.

Finally, banks are encouraged to employ the full extent of their resources, capability, and governance, including (but not limited to) mandatory approval (as stipulated in the relevant communications from the PA) and oversight from the highest committees responsible for risk and capital, assurance/audit, model governance, and the board of directors of the bank, to ensure that the implementation of the FRTB and CVA frameworks remain sound and robust.

Should banks foresee any challenges in meeting the implementation milestones set out in Appendices A and B, it remains incumbent upon such banks to engage with the PA thereon in an expeditious manner.

All requests for further information related to this Prudential Communication may be submitted via email to the PA's Market Risk Division (PA\_RSD-MarketRisk@resbank.co.za), with the relevant PA front line division copied, where applicable.

Yours sincerely

**Fundi Tshazibana**  
**Chief Executive Officer**

**Date:**

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<sup>7</sup> Any milestone that is yet to be finalised will be reflected as “to be determined (TBD)” in Appendices A and B

## APPENDIX A-REVISED MARKET RISK FRAMEWORK-IMPLEMENTATION ROADMAP

### 1. Foundational workstream

Index	Stream	Start date	End date
1.	Submission of application by banks to the PA	01-07-2022	
2.	PA assessment of applications by banks	01-07-2022	01-07-2023
3.	Communication of application outcomes to banks	01-07-2023	01-08-2023
4.	SPDT	01-01-2022	01-01-2025
5.	Submission of implementation readiness approval and confirmation to the PA	01-12-2023	
6.	Regulatory reporting	01-01-2024	
7.	Activation of the foundational requirements (in line with the broader capitalisation requirements)	TBD	
8.	New application process	TBD	

### 2. Simplified standardised approach workstream

Index	Stream	Start date	End date
1.	Submission of application by banks to the PA	01-03-2022	
2.	PA assessment of applications by banks	01-03-2022	01-07-2022
3.	Communication of application outcomes to banks <sup>8</sup>	01-07-2022	01-08-2022
4.	SPDT	01-01-2022	01-01-2025
5.	Submission of implementation readiness approval and confirmation to the PA	01-12-2023	
6.	Regulatory reporting	01-01-2024	
7.	Regulatory capitalisation	TBD	
8.	New application process	TBD	

<sup>8</sup> Banks that do not receive approval for any part of their application will be required to capitalise under the FRTB-standardised approach and should commence the build of the relevant capability to meet the milestones stipulated in this Prudential Communication and any other direct communication from the PA

### 3. Internal models approach workstream<sup>9</sup>

Index	Stream	Start date	End date
<b>Internal models approach (IMA)-phase 1 (phase 2)</b>			
1.	Submission of application by banks to the PA for the first ( <i>second</i> ) subset of prospective IMA trading desks	01-07-2022 (01-07-2023)	
2.	PA assessment of applications by banks (for entry into the IMA initial monitoring and live testing run)	01-07-2022 (01-07-2023)	01-10-2022 (01-10-2023)
3.	Communication of application outcomes to banks for participation in the IMA initial monitoring and live testing run: <ul style="list-style-type: none"> <li>Banks applying for the use of an IMA are expected to ensure full readiness of their infrastructural and processual capabilities to commence with the IMA initial monitoring and live testing run.</li> </ul>	01-10-2022 (01-10-2023)	01-11-2022 (01-11-2023)
4.	Initial monitoring and live testing run <ul style="list-style-type: none"> <li>Banks are required to make monthly submissions for a period of one year, with a final end-to-end assessment to be submitted to the PA on 01-12-2023 (01-12-2024) (submission templates to be prescribed)</li> <li>The PA will inform banks of the outcome of the general risk component for the live testing run. Following this point, banks may submit an application to the PA to model the default risk charge under the IMA (as such, banks should ensure the readiness of the application to model the default risk charge under the IMA by the conclusion of the initial monitoring and live testing run).</li> </ul>	01-11-2022 (01-11-2023)	01-11-2023 (01-11-2024)
5.	Submission of model validation <b>and</b> independent model validation assurance assessments <b>and</b> associated governance approvals (including the default risk charge model) <ul style="list-style-type: none"> <li>This submission is contingent on the successful completion of the general risk component and will be made subsequent to the completion of the IMA initial monitoring and live testing run for phase 1 (<i>phase 2</i>) and prior to the communication of the overall phase 1 (<i>phase 2</i>) outcomes</li> </ul>	TBD	
6.	Communication of application outcomes to banks	01-05-2024 (01-05-2025)	01-06-2024 (01-06-2025)
7.	SPDT	01-01-2022	01-01-2025 (01-01-2026)
8.	Submission of implementation readiness approval and confirmation to the PA	01-07-2024 (01-07-2025)	
9.	Regulatory reporting	01-07-2024 (01-07-2025)	
10.	Regulatory capitalisation	TBD	
11.	New application process (for desks not submitted as part of phase 1 and phase 2)	TBD	

<sup>9</sup> Specifications reflected in parenthesis and italics are indicative of Phase 2 milestones, in line with Prudential Communication 7 of 2021

#### 4. Standardised approach workstream

Index	Stream	Start date	End date
1.	SPDT	01-01-2022	01-01-2025
2.	Submission of relevant application considerations by banks to the PA <sup>10</sup>	01-07-2022	01-12-2022
3.	Submission of implementation readiness approval and confirmation to the PA	01-12-2023	
4.	Submission of model validation <b>and</b> independent model validation assurance assessments <b>and</b> associated governance approvals	01-12-2023	
5.	Regulatory reporting	01-01-2024	
6.	Regulatory capitalisation	TBD	
7.	New application process (based on point (2) in this table)	TBD	

#### 5. Quantitative and qualitative impact testing (post-implementation)

Index	Stream	Start date	End date
1.	Pre-capitalisation	01-01-2024	TBD
2.	Post-capitalisation	TBD	TBD

#### 6. Procedural guidelines workstream

Index	Stream	Start date	End date
1.	PA development and approval of procedural guidelines	01-01-2022	
2.	First issuance and engagement with banks on procedural guidelines	TBD	

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<sup>10</sup> These application components are in line with the prescriptions of Prudential Communication 1 of 2022 and other such aspects in the BCBS framework

## APPENDIX B-REVISED CREDIT VALUATION ADJUSTMENT FRAMEWORK-IMPLEMENTATION ROADMAP

### 1. Basic approach-CVA workstream

Index	Stream	Start date	End date
1.	SPDT	01-01-2022	01-01-2025
2.	Submission of implementation readiness approval and confirmation to the PA	01-12-2023	
3.	Submission of model validation <b>and</b> independent model validation assurance assessments <b>and</b> associated governance approvals	01-12-2023	
4.	Regulatory reporting	01-01-2024	
5.	Regulatory capitalisation	TBD	

### 2. Standardised approach-CVA workstream<sup>11</sup>

Index	Stream	Start date	End date
1.	SPDT	01-01-2022	01-01-2025 <i>(01-01-2026)</i>
2.	Submission of application by banks to the PA	01-11-2023 <i>(01-11-2024)</i>	
3.	Submission of model validation <b>and</b> independent model validation assurance assessments <b>and</b> associated governance approvals	01-11-2023 <i>(01-11-2024)</i>	
4.	PA assessment of applications by banks	01-11-2023 <i>(01-11-2024)</i>	01-05-2024 <i>(01-05-2025)</i>
5.	Communication of application outcomes to banks	01-05-2024 <i>(01-05-2025)</i>	01-06-2024 <i>(01-06-2025)</i>
6.	Submission of implementation readiness approval and confirmation to the PA	01-07-2024 <i>(01-07-2025)</i>	
7.	Regulatory reporting	01-07-2024 <i>(01-07-2025)</i>	
8.	Regulatory capitalisation	TBD	
9.	New application process (for applications not submitted as part of phase 2)	TBD	

### 3. Quantitative and qualitative impact testing (post-implementation)

Index	Stream	Start date	End date
1.	Pre-capitalisation	01-01-2024	TBD
2.	Post-capitalisation	TBD	TBD

### 4. Procedural guidelines workstream

Index	Stream	Start date	End date
1.	PA development and approval of procedural guidelines	01-01-2022	
2.	First issuance and engagement with banks on procedural guidelines	TBD	

<sup>11</sup> Specifications reflected in parenthesis and italics are indicative of Phase 2 milestones. Banks may choose either Phase 1 or Phase 2 to make their application, depending on readiness, amongst other factors.