South African Reserve Bank
Prudential Authority

Confidential

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G7/2020

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

Guidance Note 7/2020 issued in terms of section 6(5) of the Banks Act 94 of 1990

Proposed implementation dates in respect of specified regulatory reforms

Executive summary

Following the global financial crisis that commenced in 2007, various international standard-setting bodies have agreed to put in place, among others, comprehensive measures, policies, regulations and reforms to promote financial stability as well as the safety and soundness of individual financial institutions.

In this regard, the Basel Committee on Banking Supervision (Basel Committee) has issued various new or amended frameworks, standards or requirements for implementation by member jurisdictions.

The recent outbreak of the coronavirus disease (Covid-19) has had far-reaching consequences to date for, among others, financial markets and economies across the world.

As such, governments have announced not only drastic measures to mitigate the risk of an uncontrollable spread of Covid-19, but also measures to protect financial markets and economies from suffering permanent damage. In addition, standard-setting bodies of prudentially regulated institutions have announced comprehensive measures to mitigate the impact that the outbreak of Covid-19 has on preparations by regulators and institutions for the implementation of the respective new or amended frameworks, standards or requirements.

Based upon, among others, industry requests received, quantitative impact studies, progress by member jurisdictions of the Basel Committee to implement the reforms, regulatory responses to the outbreak of Covid-19, and other matters related to implementation complexity, the Prudential Authority (PA) proposes to implement the outstanding regulatory reforms in South Africa on the dates set out in this Guidance Note.

This Guidance Note replaces Guidance Note 6 of 2019.

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1. Background

1.1 Following the global financial crisis that commenced in 2007, various international standard-setting bodies have agreed to put in place, among others, comprehensive measures, policies, regulations and reforms to promote financial stability as well as the safety and soundness of individual financial institutions.

1.2 In this regard, the Basel Committee has issued, among others-

1.2.1 extensive enhancements to the Basel II framework in 2009, which have subsequently been implemented in South Africa with effect from 1 January 2012;

1.2.2 revisions to the Basel II market risk framework in 2009 and in 2011, which have subsequently been implemented in South Africa with effect from 1 January 2012;

1.2.3 the Basel III capital framework, originally published in December 2010 and updated in June 2011, which has subsequently been implemented in South Africa with effect from 1 January 2013;

1.2.4 the Basel III Liquidity Coverage Ratio framework, originally published in December 2010 and updated in January 2013, which has subsequently been implemented in South Africa with effect from 1 January 2015; and

1.2.5 the Basel III Net Stable Funding Ratio framework, originally published in December 2010 and updated in October 2014, which has subsequently been implemented in South Africa with effect from 1 January 2018.

1.3 During December 2017, the Basel Committee published the outstanding components of the Basel III post-crisis reform package.

1.4 The revised Basel framework comprehensively addresses the shortcomings identified in the pre-crisis regulatory framework and provides a regulatory foundation for a resilient banking system that supports the real economy.

1.5 The recent outbreak of Covid-19 has had far-reaching consequences to date for, among others, financial markets and economies across the world.

1.6 As such, governments have announced not only drastic measures to mitigate the risk of an uncontrollable spread of Covid-19, but also measures to protect financial markets and economies from suffering permanent damage.

1.7 In addition, standard-setting bodies of prudentially regulated institutions have announced comprehensive measures to mitigate the impact that the outbreak of Covid-19 has on preparations by regulators and institutions for the implementation of the respective new or amended frameworks, standards or requirements.

1.8 In this regard, on 27 March 2020, the Basel Committee announced that its oversight body, the Group of Central Bank Governors and Heads of Supervision, has endorsed a set of measures to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities resulting from the impact of Covid-19 on the global banking system. The measures announced by the Basel Committee include a deferral of the implementation timeline of the outstanding Basel III standards, by one year.

1.9 On 29 April 2020, the PA issued Communication 2 of 2020 in terms of the Financial Sector Regulation Act, 2017, setting out the PA's proposed revised implementation dates in respect of specific regulatory frameworks due to the impact of Covid-19, and the PA invited financial institutions to submit their comments in respect of the proposed implementation dates.

1.10 Based upon, among others, industry comments and requests, quantitative impact studies, progress by member jurisdictions of the Basel Committee to implement the reforms, regulatory responses to the outbreak of Covid-19, and other matters related to implementation complexity, the PA proposes to implement the outstanding regulatory reforms in South Africa on the dates set out in paragraph 2.1 below.

1.11 This Guidance Note replaces Guidance Note 6 of 2019.

2. Proposed implementation dates

2.1 Based upon the aforesaid, it has been decided to revise the proposed implementation dates in South Africa for specified regulatory reforms, as follows:

Regulatory reform	Proposed implementation date
Standardised Approach to Counterparty Credit Risk (SA-CCR)	1 January 2021
Capital requirements for bank exposures to central counterparties	1 January 2021
Capital requirements for banks' equity investments in funds	1 January 2021
Revisions to the securitisation framework	1 April 2021
Total Loss Absorbing Capacity (TLAC) Holdings	1 April 2021
Large exposures framework	1 April 2021
Interest rate risk in the banking book	1 June 2022
Interest rate risk in the banking book: Disclosure requirements	1 June 2022
Minimum capital requirements for market risk	1 January 2023
Revised standardised approach for credit risk framework	1 January 2023
Revised internal ratings based approach framework	1 January 2023

Regulatory reform	Proposed implementation date
Revised credit valuation adjustment framework	1 January 2023
Revised operational risk framework	1 January 2023
Leverage ratio – revised exposure definition	1 January 2023
Output floor	1 January 2023: 50% 1 January 2024: 55% 1 January 2025: 60% 1 January 2026: 65% 1 January 2027: 70% 1 January 2028: 72.5%

2.2 However, ultimately, amendments to the Regulations are promulgated by the Minister of Finance in terms of section 90 of the Banks Act, 1990, for implementation, only when the National Treasury and the Minister of Finance, as a minimum-

2.2.1 have concluded their own respective processes related to, for example, consideration of any relevant proposed amendments to legislation; and

2.2.2 are satisfied that a sufficiently robust consultation process has been followed in respect of the said proposed amendments to legislation.

2.3 As such, should any of the aforementioned proposed implementation dates need to be revised due to, for example, the nature and extent of comments received and/ or the PA's ongoing engagements with all relevant interested persons, including the National Treasury and the Minister of Finance, the PA will accordingly communicate the said revised proposed implementation dates.

2.4 Where applicable, parallel runs will commence at least three months prior to the relevant proposed implementation date, the relevant details of which will also be communicated by the PA in due course.

3. Statement of expected impact

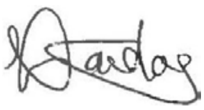
3.1 In order to ensure adequate engagement and that the potential impact, costs and benefits of proposed amendments to the Regulations are duly considered and measured, the preparation of a statement of expected impact forms an integral part of the process of proposing amendments to the Regulations, with an invitation for all interested persons to submit their comments.

3.2 As part of the aforementioned processes, the PA engages all banks and other relevant persons on the respective reforms, in order to gather the necessary qualitative and quantitative information that the PA requires to determine or assess the potential impact of the proposed amendments to the Regulations, as well as to prepare the aforementioned statement of expected impact.

3.3 All comments received related to the potential impact, costs and benefits of the proposed amendments to the Regulations as well as the comments received in respect of the actual proposed amendments to the Regulations will be published on the website of the PA, unless a respondent specifically requests confidential treatment of such comments.

4. Acknowledgement of receipt

4.1 Kindly ensure that a copy of this guidance note is made available to your institution's external auditors. The attached acknowledgement of receipt, duly completed and signed by both the Chief Executive Officer of the institution and the said auditors, should be returned to the PA at the earliest convenience of the aforementioned signatories.



Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 24 June 2020

The previous guidance note issued was Guidance Note 6/2020, dated 29 May 2020.