

25 August 2017

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Dear Wessel

## Re: Matters Related to the Standards for Interest Rate Risk in the Banking Book

We thank you for the opportunity to provide comments on the proposed directive (15/8 dd. 25/07/17) issued in terms of section 6(6) of the Banks Act 94 of 1990.

We furthermore thank you for the ongoing dialogue and engagement with the industry in our regular meetings, around the implementation of the Basel Committee on Banking Supervision, Standards for Interest Rate Risk in the Banking Book (IRRBB), due 1 January 2018.

While several of the issues raised through the industry meetings have been dealt in the proposed directive, there are still key items that require further clarification and are contained in the BASA issues log, attached as **Annexure A [#227616]**, updated post our meeting on 7 August 17.

### 1.1 Summary of items requiring guidance / clarification

(The items raised below are referenced to the BASA IRRBB issues log and only reflect the outstanding guidance / clarification required)

No.	Reference	Summary of the Issues requiring clarification
3.1.2	Implementation Timetable	<ol style="list-style-type: none"> <li>1. Key concerns remain around public disclosure and parallel runs ahead of the January 2018 go-live.</li> <li>2. The latest guidance note from SARB indicates that Pillar 2 add-on will be applied to South Africa, but that NII sensitivity should be reported at Group level – what is the timing around this requirement?</li> </ol>
3.3.1	Public Disclosure	<ol style="list-style-type: none"> <li>1. Further guidance is required on the “outlier” test as SARB have confirmed that the current 15% threshold will only be applied at present, however it would be</li> </ol>

		<p>beneficial for the industry to understand how the “Outlier” test will be applied in practice.</p> <p>2. We would recommend that SARB consider an implementation date for the outlier test after the adoption date of the Public Disclosure or a new regulatory template (BA330) given that each of the banks are already providing QIS information based on the new Basel stresses.</p> <p>3. Confirmation is required on what / when information should be disclosed in Pillar 3 while the implementation timeliness are being determined i.e. what should banks disclose in the next Pillar 3 report – the current proposal is that the existing public disclosure should remain as is until the new public disclosure dates and content are finalised and implemented?</p>
3.3.1.1	Revised disclosure content	<p>1. Guidance is required on what information needs to be disclosed once the new disclosure requirements are implemented as SARB have previously indicated that Template B would be required however qualitative information is required by Basel in Template A.</p>
3.6.1	Shock Calibrations	<p>1. The standardised interest rate shock scenarios described in Appendix 2 of the BCBS guidelines are calibrated by currency and are agnostic to countries. Can SARB please confirm USD exposures shocked by 200bps?</p>
3.9.1	BA 330 Template	<p>As there will be a number of changes required to the BA 330 template, the market would welcome an industry workshop on these changes.</p> <ol style="list-style-type: none"> <li>1. Timelines to propose a new template</li> <li>2. How long banks would have to comment prior to implementation</li> <li>3. Whether there would be a parallel run period to iron out interpretation issues</li> <li>4. Current proposal to date, is that the regulatory reporting process will continue as is and that the QIS currently underway will be formalised by the SARB in the coming months and then a decision will be communicated around revised regulatory reporting formats and timelines?</li> </ol>

3.10	Treatment of Equity	1. BASA has submitted a discussion document for consideration and await feedback from SARB
11.1	EVE Model	<ol style="list-style-type: none"> <li>1. What is the SARB's perspective on how the EVE model should be implemented (include/ exclude margin) and how the Outlier test would be implemented (including whether any complimentary tests on NII would be necessary)</li> <li>2. What consideration is expected around the treatment of equity as it relates to potential differences in ICAAP versus Regulatory reporting. I.e. should equity be treated differently between these frameworks – current proposal is for a consistent treatment between frameworks, preferably for both equity and hedges on equity to be included.</li> <li>3. Will each bank be assessed via on-site meetings on its risk management practice around its own equity?</li> </ol>
12.2	Offset of currencies	1. Confirmation is required if offsets will be allowed between various currencies?

## 1.2 Recommendation

The approaches taken to commercial margin stripping and non-maturity deposit profiling (particularly for non-interest bearing current accounts) may differ significantly across the industry and lead to significant variances in EVE results. This could lead investors to incorrectly make conclusions when comparing bank's IRRBB sensitivities contained in the public disclosures. While an implementation timeline is not specified in the proposed directive, it is the industry recommendation that sufficient time be given to allow SARB to review the approaches taken by the various banks through bilateral discussions and on-site visits, allowing adequate time for a finalised parallel reporting period ahead of public disclosure and hence, we request that SARB consider a delay in the January 2018 implementation date until all matters are resolved.

## 1.3 Conclusion

We trust that the table above will be of value in our further deliberation on this matter.

Yours sincerely



G Haylett  
Prudential Division



## ANNEXURE A

### Issues Log (V7)

#### Table of items

No.	Reference	Summary of issues and implications thereof	Recommendations
3.1.1	<b>General</b>	Questions will be split into Basel Regulations and National Discretion questions.  What is considered under ND?	Clarity is provided in the Basel document and the Outlier test is not discretionary including the 6 stress scenarios  SARB to decide on use of standardised or internal models approach.  <u>18/11/16</u> : To be discussed further via on-site meetings and during the approval process.
3.1.2		Implementation timetable for current Basel regulations  <ul style="list-style-type: none"> <li>- Margin requirements for non-centrally cleared derivatives (September 2016)</li> <li>- The revised Pillar 3 framework (end 2016)</li> <li>- The standardised approach for measuring counterparty credit risk (January 2017)</li> <li>- Capital requirements for central counterparty (CCP) exposures (January 2017)</li> <li>- Capital requirements for equity investments in funds (January 2017)</li> </ul>	<b>IRRBB&gt;Go live Jan 2018</b> , however most banks need to go live during Q417 <b>FRTB&gt; go live end 2019</b> with a deadline for national regulators to finalise their local regulations by 1 Jan 2019 <u>26/9/16</u> : Other jurisdictions are also struggling to meet implementation deadlines and SARB will revert on clarity around timelines <u>13/10/16</u> : SARB has released a circular notifying banks about a delay in implementing the some Basel regulations <u>20/6/17</u> : Will there be a parallel run ahead of implementation date and what will be the 1 <sup>st</sup> disclosure date?

			<p><u>7/8/17</u>: It is anticipated that the implementation timeline will not be met. SARB will revert after their POLCO end August. Key concerns remain around public disclosure and parallel runs ahead of the original 2018 go live. SARB will be looking for at least a 2 year parallel run before disclosure takes place.</p> <p><b>25/8</b>: The latest guidance note from SARB indicates that Pillar 2 add-on will be applied to South Africa but that NII sensitivity should be reported at Group level – what is the timing around this requirement?</p>
3.2	<b>Internal Risk Transfer</b>	<p>The treatment for externalisation of banking book hedges and the offset against the trading book was not covered in the IRRBB Standards. The FRTB implementation date will require a review of the structure of the banking book</p> <p><b>25/8/16</b>: #206527v2 updated document circulated for discussion.</p>	<p><u>26/9/16</u>: SARB to consult with banks on <i>back-book</i> issues &amp; obtain clarity on how to treat the issue</p> <p><u>18/11/16</u>: SARB to revert on diversification of desks (50%):</p> <p><u>18/11/16</u>: SARB to revert on accounting standards around residual risk?</p> <p><b>7/8/17</b>: Item moved to MRTG as this is out of scope under IRRBB</p>
<b>3.3.1</b>	<b>Public Disclosure</b>	<p>Whilst there is no problem in disclosing the approach banks use to behaviouralise certain products, the new disclosure specifically requires Banks to disclose their average and longest terms for non-maturity deposits.</p> <p>Given the technical nature of this specific behaviouralisation, there is room for misinterpretation (i.e. while the disclosure suggests Banks provide a behavioural term, the term in this instance could be calibrated to a repricing term rather than a maturity term. This difference may also</p>	<p>BASA has responded to the BIS P3 disclosure document and expressed concerns about the level of disclosure requirements Table A&amp; B are Basel hard coded requirements however national discursion can be applied to obtain more information.</p> <p><u>26/9/16</u>: SARB will consider if they will provide a framework for a unified disclosure template for SA banks or if an industry workshop (incl. Audit) will be a better option</p>

be confused with similar concepts applied differently for other risk types like "stickiness" profiles in Liquidity).

Further the longest term is misleading metric in any event as there is no consideration for materiality (i.e. the longest term could be for an immaterial portfolio)

We believe that the qualitative disclosure which describes the behaviouralisation approach is more appropriate and sufficient in this instance

**3/3/17:** BASA/IBFed discussion document on clarification around disclosure tables A&B principal C to show the adverse consolidated impacts of the rate shocks and that for investor purposes, more detail might be required.



IBFed IRRBB.docx

**18/11/16:** Standard templates were provided in the Basel document that banks will be required to use.

**3/3/17:** SARB will engage with SICA on the audit process during its deliberations

**3/3/17:** BASA submitted a discussion document to IBFed to raise the issue on clarification

**7/8/17:** As noted in the BCBS P3 Phase 2 standards (p6), these disclosure requirements are now included under Pillar 3. However while IBFed acknowledge that the questions posed in the memo are valid, they are concerned that the arguments as presented are open ended and may encourage regulators to opt for more disclosers with respect to the currency breakdown as a solution. The IBFed was not in favour of a combined Q&A

**8/7:** As per the draft directive(25/7/17), NII data is available and disclosure will be on solo & consolidated group

EVE will be on a solo SA basis but also to the extent that a bank operates in a jurisdiction that has implemented Basel, this must be built into the public disclosure.

**25/8: (1)** Further guidance is required on the "outlier" test as SARB have confirmed that the current 15% threshold will only be applied at present, however it would be beneficial for the industry to understand how the "Outlier" test will be applied in practice?

2. We would recommend that SARB consider an implementation date for the outlier test after the adoption date of the Public Disclosure or a new regulatory template (BA330) given that each of the

			<p>banks are already providing QIS information based on the new Basel stresses.</p> <p>3. Confirmation is required on what / when information should be disclosed in Pillar 3 while the implementation timeliness are being determined i.e. what should banks disclose in the next Pillar 3 report – the current proposal is that the existing public disclosure should remain as is until the new public disclosure dates and content are finalised and implemented?</p>
3.3.1.1	Revised disclosure content		<b>25/8:</b> Guidance is required on what information needs to be disclosed once the new disclosure requirements are implemented as SARB have previously indicated that Template B would be required however qualitative information is required by Basel in Template A.
3.3.2		Banks with a Financial year-end of Dec will be required to disclose information in 2018 based on information as at 31 Dec 2017. Will banks be required to disclose comparatives for Dec 2016 (as per the new Standards)?	<p><u>26/9/16:</u> SARB is considering not requiring comparatives for the 1st year, however this will be communicated via normal SARB channels</p> <p><u>7/8/17:</u> confirmation received under item 2.3.1 of the draft directive 15/8.(25/7/17)</p>
3.3.3		The disclosure requirements under Principle 8 especially disclosure of the EVE metric is also cause for some concern since the public may interpret the figure in a way that isn't necessarily representative of reality. Again the requirements under this principle might become best practice and evolve towards Pillar 1.	<p><u>26/9/16:</u> To be discussed at a SARB workshop</p> <p><u>18/11/16:</u> Standard templates were provided in the Basel document that banks will be required to use.</p>
3.3.4		Will this implementation be expected for all Group subsidiaries in jurisdictions outside of South Africa?	<p><u>26/9/16:</u> To be discussed at a SARB workshop</p> <p><u>18/11/16:</u> There is no change to the current way of reporting</p>

		<p>This would be required for Group consolidation purposes.</p> <p>Awaiting further clarity as there is a drive to Group level reporting.</p> <p>This would also benefit foreign bank branches as they currently need to report independently at branch level</p>	<p><u>3/3/17</u>: Industry will still require a more definitive response on the rest of Africa businesses as this will impact the outlier test and implementation plans for SA banks.</p> <p><u>7/8/17</u>: (Draft directive 25/7/17:-2.7.1) As the IRRBB standards form part of the P2 approach, banks must report on a solo basis. Banks will be required to perform NII calculations for the banking group companies on a consolidated basis.</p>
3.3.5		<p>Guidance required on uniform disclosure for SA market – disclosure requirements will lead to key management strategies becoming available to competitors. How will this be addressed?</p>	<p>26/9: To be discussed at a SARB workshop</p> <p>18/11: Standard templates were provided in the Basel document that banks will be required to use.</p>
3.4.1	<b>Pillar 1 vs Pillar 2 approach</b>	<p>Supervisors can mandate a bank to follow a standardised framework and there is discretion in there allowing supervisors to fall back on a Pillar 1 approach especially if they consider a bank “outlier” bank.</p> <p>Our concern is that even though a Pillar 2 approach is being applied, that in time this might evolve to be a Pillar 1 approach.</p> <p>Standardising IRRBB is difficult due to differences between jurisdictions, banks and assumptions. Systems/guidance should be in place to facilitate decisions not spawn a box-ticking society</p>	<p>This does impact the stress test scenarios and the severity of the ZAR shocks</p> <p>SARB will allow banks to choose either option of internal P2 approach or standardised approach and will evaluate this on a case by case basis. National Discretion will be applied</p>
3.4.2		<p>The defined outlier standard is onerous as the instantaneous interest rate shocks in the ZAR curve are unrealistic.</p> <p>The 15% of Tier 1 Capital is more restrictive than the previous 20% of total capital. Will the outlier test</p>	<p>26/9: SARB to request data and revert</p> <p>18/11 SARB to discuss at on-site meetings</p> <p>7/8/17: (draft directive 25/7/17:-2.2) - Solo outlier test applied</p>



		<p>be expanded or limited to 15% of CET1 – excessive IRRBB exposure to be explained</p> <p>Guidance is required on Capital adequacy related to IRRBBB where deemed excessive / outlier etc</p>	
3.5.1	<b>Basis Risk</b>	<p>There is very little guidance on the measurement of basis risk. This is a significant risk (particularly Prime assets vs JIBAR liabilities) which needs to be quantified and managed as far as possible.</p> <p>We would welcome SARB guidance on this risk and clarify the sort of measuring and monitoring that will be needed/required for it, over and above what the banks currently do.</p>	<p>28/9 SARB looking for an industry proposal on how to manage the risk</p> <p>18/11: #213321 presented to SARB for consideration.</p> <p>7/8/17: Slight amendments will be made to the BA 330 to be discussed at the industry workshop</p>
3.6.1	<b>Basel Shock Calibration</b>	<p>The committee has proposed specific rate scenarios per G20 country. We believe this was done to better reflect a peak to trough reality in the magnitude of interest movements.</p> <p>However, this presents 2 problems:</p> <ol style="list-style-type: none"> <li>The shocks that will most likely result in the largest EVE sensitivity are the parallel shocks, which are unrealistic in themselves. We are not likely to see an instantaneous 400bps change to interest rates. Therefore we don't believe a ZAR specific 400bps scenario improves the realism of the capital calculation approach</li> <li>By having a specific currency rate shock calibration, the playing fields are no longer level globally. Given that EVE sensitivity is a relative measure which is heavily dependent on the magnitude of the shock, SA Banks are unfairly penalised in relative terms, to our DM counterparts. Especially since the BCBS has effectively set a benchmark for EVE sensitivity</li> </ol>	<p>The research was conducted by BIS covering a 12yr period.</p> <p>If this is to be applied it should be phased in over time. E.g.in 2008/9 when rates moved 500bps in 8mths, it is more appropriate to phase in a shock instead of applying an instantaneous ad-hoc shock.</p> <p><u>25/8/16</u>: #206525v3 updated discussion document sent to SARB</p> <p><u>18/11/16</u>: An outstanding issue for SARB is how the 6 stress test for the outlier test will impact banks before SARB can develop a template. This will be discussed at the on-site meetings.</p> <p><u>3/3/17</u>: SARB would need to consider what / if caps are to be set for the African operations</p> <p><u>7/8/17</u>: (Draft Directive 25/7/17-2.8) Shock calibrations have been calculated mainly for the G20 countries within the Basel document and have been capped at 400bps. South Africa has the maximum cap</p>

		as a percentage of Tier 1 Capital of 15% globally.	of 400bps. Accordingly banks are required to use a 400bps shock for the NII calculations of banking group entities in countries within which the bank operates, that has not been assigned a specific shock parameter.”  <b>25/8:</b> The standardised interest rate shock scenarios described in Appendix 2 of the BCBS guidelines are calibrated by currency and are agnostic to countries. Can SARB please confirm USD exposures shocked by 200bps?
3.6.2		The framework places importance on both economic value and earnings metrics. South African banks typically follow a predominantly earnings based approach.  Will an increased focus on the economic value approach be given by the SARB?	18/11: SARB provided feedback that greater focus will be given to EVE in-line with the new Basel Standards.
3.6.3		Guidance is required on whether the SARB will consider any additional stress scenarios in terms of Supervisory discretion?	18/11: Basel has provided 6 scenarios and the BA330 allows for an additional internal scenario test that will remain to provide a bank’s own view
3.6.4		Will the SARB be adding the non-parallel scenarios i.e. ‘flattener’, ‘steepner’ and ‘butterfly’ etc.?	18/11: SARB provided guidance that scenarios will be adopted as is
3.6.5		What happens to the current scenarios required in terms of Regulation 30?	<u>7/8/17:</u> (Draft D15/8 25/7/17-2.8.1) Current 200bps to be amended to 400bps
3.6.6		Modelling the six stress scenarios – will rate tenors (short v. long term) be standardized and will the proposed scenarios be adopted as is?	18/11: Industry proposed that we provide the SARB with proposed standardized constructs for the shaping scalars:

3.6.7		Will the current zero floor still be applicable to the stress scenarios or will negative rates be implied?	The TG agree that they do not foresee that SA will ever go into negative rates such as some other international jurisdictions. SARB will look to leave floors in place but will look to have 1-1 conversations with members to understand the implications on each bank
3.6.8		Guidance required on behavioural assumptions i.e. different CPR factors per stress scenario.	18/11: SARB advised that the base CPR would be sufficient for modelling purposes and that no stress CPR was required.
3.7	<b>CSRBB</b>	What will be expected from banks in terms of CSRBB	18/11/16: SARB to await clarity from Basel but will look to send out a questionnaire as there are no prices available for some of the instruments 7/8/17: (Draft directive 25/7/17) requires CSRBB to be identified within a bank and managed with the banks risk framework. SARB will continually monitor this as part of their annual survey. Banks can begin identifying how and where Credit Risk is covered within the bank in preparation for internal audit.
3.8	<b>QIS</b>	Based on the previous QIS , We feel the following should be addressed: <ul style="list-style-type: none"> <li>Variable rate NMDs</li> </ul> <p>Would SARB be looking at a standardisation of NMD's</p>	<u>26/9</u> SARB will be looking to leave this on an individual bank basis but will look to assess if this becomes significant
<b>3.9.1</b>	<b>SARB reporting</b>	Will we be receiving an updated BA330 template that incorporate the new reporting requirements and if so by when?	There will be a change to the BA 330 template to capture the additional requirements and SARB will submit a draft template for comment  The time line to comply with the changes will be impacted by the extent of the changes required as is also depended on a move from bank to group reporting

			<p><b>7/8/17:</b> As there will be a number of changes required to the BA 330 template, the market would welcome an industry workshop on these changes.</p> <ol style="list-style-type: none"> <li>1. Timelines to propose a new template</li> <li>2. How long banks would have to comment prior to implementation</li> <li>3. Whether there would be a parallel run period to iron out interpretation issues</li> </ol>
3.9.2		Should we expect any BA610 template changes? Banks have exposure in Africa	There will be changes to the BA 610 & BA 330
3.10	<b>Treatment of equity</b>	<p>Principle 8 seems to imply that equity should be excluded for the change in EVE but that any related structural hedges should be included. This will provide a misleading result for banks which have hedged their equity exposure. How is this going to work in practice?</p> <p>Banks need to bring in their off-balance sheet hedges but have to specifically exclude equity which creates a miss match</p>	<p><u>18/11/16:</u> Members to discuss with SARB on a 1-1 basis</p> <p><u>26/6/17:</u> Discussion document #227559 circulated for comments to be discussed under item 3.1 of the agenda</p> <p><b>7/8:</b> SARB to revert</p>
11.1	<b>Behavioural product assumptions</b> /	Guidance is required on whether the SARB will apply a standardization or IMS approach for EVE?	<p><u>18/11:</u> SARB provided guidance that banks would be allowed the option on either approach.</p> <p><u>3/3/17:</u> SARB to revert back on whether a bank can select different approaches for parent vs. subsidiary.</p> <p><u>7/8/17:</u> (Draft directive 25/7/17 -2.1.1) Banks may choose the framework to be adopted.</p> <p><b>25/8:</b> (1).What is the SARB's perspective on how the EVE model should be implemented (include/ exclude margin) and how the Outlier test would be implemented (including whether any complimentary tests on NII would be necessary)</p>

			(2).What consideration is expected around the treatment of equity as it relates to potential differences in ICAAP versus Regulatory reporting. I.e. should equity be treated differently between these frameworks – current proposal is for a consistent treatment between frameworks, preferably for both equity and hedges on equity to be included. (3).Will each bank be assessed via on-site meetings on its risk management practice around its own equity
11.2		Guidance is required on product concentrations and if different stress scenario / liquidity constraints need to be considered for these products (if considered necessary in SA market)?	18/11: SARB indicated that the IMS would not be standardized. IMS based on bank specific model and standardization limited to the Basel document
11.3		Will any constraints be applied on the pass-through concept be and will this be standardized for the SA market?	18/11: SARB indicated no standardization. Left to bank's internal model.
11.4		Will any required counterparty identification be aligned with Basel 3 concepts	18/11: Only necessary if using standardized approach and guidance indicated that this would be left to bank's modelling approach.
11.5		Do product features require incorporating macro-economic factors in behavioral assumptions and will this be aligned across the industry?	18/11: Not required as per SARB guidance. Similar to point around CPR.
11.6		Will the SARB be standardizing the treatment of 'Non Maturing Products' and Non Customer Balances (biggest impact on 'EVE' - this is important with IRR and Liquidity aligning more and more)?	18/11: No standardization as per SARB guidance. Left to bank's modelling approach.
12.1	<b>FX exposures</b>	Clarity is required on the materiality of FX exposures to be reported (applicable to banks with various foreign branches and subsidiaries)?	18/11: SARB to revert 7/8/17: BCBS capped assumptions that all non G20 subs would also use the 400bps scenarios?

12.2		Guidance is required on modelling cross currency correlations	<u>18/11</u> : SARB to revert <u>7/8/17</u> : Assumption of no offset allowed between currencies? <b>25/8</b> : Confirmation is required if offsets will be allowed between various currencies?
12.3		Reporting forms to be amended to cater for FX.	<u>7/8/17</u> : to form part of the BA 330 workshop?
13.1	<b>Role of the Regulator</b>	Testing of model by Regulator – what will this entail in order to assess the adequacy of the model?	<u>3/3/17</u> : To be conducted at on-site meetings
13.2		Guidance is required on what constituents “adequacy of the management framework”.	<u>3/3/17</u> : Banks need to demonstrate an adequate risk management framework
13.3		Comparison of key assumptions – will there be alignment of assumptions / constraints applied (all related to points above)?	<u>18/11/16</u> : No standardization required, only what is in Template A and B – per SARB guidance.