

(All amounts to be rounded off to the nearest R'000)

Equity and equity indices risk	Line no.	Positions in RSA	Positions held in foreign operations	Total positions (total of col. 1 and 2)	Risk weight	Required capital
		1	2	3	4	5
Equity						
Specific risk (gross equity positions, long and short) (total of items 62 and 63)	61					
Less liquid ¹	62				12.00%	
Other	63				8.00%	
General risk (net equity positions, or difference between long and short)	64				8.00%	
Equity indices						
General risk (net equity positions, or difference between long and short)	65				8.00%	
Equity index add-on ² (net long or short position) (total of items 67 and 68)	66					
Diversified indices	67				2.00%	
Other indices	68				4.00%	
Total specific equity risk and equity index add-on (total of items 61 and 66)	69					
Total general risk (total of items 64 and 65)	70					
Total equity risk (total of items 69 and 70)	71					

1. Refer to regulation 28(7)(c)(ii).

2. Refer to regulation 28(7)(c)(v)(B).

(All amounts to be rounded off to the nearest R'000)

Foreign exchange and gold risk	Line no.	Trading book		Banking book		Total ¹	
		Long	Short	Long	Short	Long	Short
		1	2	3	4	5	6
Total foreign currency and gold position	72						
All foreign currencies (total of items 75 to 80)	73						
Gold	74						
Memorandum Items: foreign currency positions							
USD	75						
Euro	76						
GBP	77						
CHF	78						
JPY	79						
Other	80						
Required capital and reserve funds							Total
							1
Total net open position ²	81						
Total capital requirement for foreign currency and gold (8% of item 81)	82						

1. Report as absolute amounts.

2. Calculated in accordance with the relevant requirements specified in regulation 28(7)(d)(iii), that is, the greater of the sum of the bank's relevant net short positions or the sum of the bank's relevant net long positions in foreign currency, plus the bank's net absolute position in gold, that is, the bank's net position in gold irrespective whether the said net position is a long or short position.

(All amounts to be rounded off to the nearest R'000)

Commodities risk	Line no.	Trading book		Banking book		Positions subject to capital requirement	Capital requirement	
		Long	Short	Long	Short		(%)	Total
		1	2	3	4		6	7
Simplified approach¹ (total of items 84 and 85)	83							
Net positions	84						15%	
Gross positions	85						3%	
Maturity ladder approach² (total of items 87 to 89)	86							
Matched long and short positions	87						1.50%	
Residual net positions carried between time bands	88						0.6% ²	
Residual net open position	89						15%	
Memorandum items: commodity positions								
Precious metals	90							
Agricultural products	91							
Minerals	92							
Base metals	93							
Other	94							

1. Refer to regulation 28(7)(e)(II).

2. Refer to regulation 28(7)(e)(III).

(All amounts to be rounded off to the nearest R'000)

Options risk Simplified approach	Line no.	Interest rates	Equities	Foreign exchange and gold	Commodities
		1	2	3	4
Capital requirement	95				
Delta-plus approach		Interest rates	Equities	Foreign exchange and gold	Commodities
		1	2	3	4
Capital requirement (total of items 97 and 98)	96				
Gamma impact	97				
Vega impact	98				
Scenario matrix approach		Interest rates ¹	Equities ²	Foreign exchange and gold ³	Commodities ⁴
		1	2	3	4
Capital requirement	99				

1. Refer to regulation 28(7)(b) in respect of the treatment of different currencies and time bands.

2. Refer to regulation 28(7)(c) in respect of the treatment of positions in different markets and indices.

3. Refer to regulation 28(7)(d) in respect of the treatment of different currency pairs.

4. Refer to regulation 28(7)(e) in respect of the treatment of positions in different commodities.

(All amounts to be rounded off to the nearest R'000)

Internal models approach	Line no.	Regulatory VaR amounts ^{1,2}				Incremental risk charge ^{1,6}	Internal VaR ³		
		Min VaR	Ave VaR	Max VaR	sVaR		Max VaR	VaR limit	sVaR limit
		1	2	3	4		6	7	8
Position risk - VaR amounts ^{4,5} and incremental risk amount	100								
Interest rate risk	101								
Equity risk	102								
Foreign exchange risk, including gold	103								
Commodity risk	104								
Other	105								
Memorandum items:									
Total VaR amounts ^{4,5}	106								
Desk 1 ⁵	107								
Desk 2 ⁵	108								
Desk 3 ⁵	109								
Other desks ⁵	110								

1. Calculated in accordance with the relevant requirements specified in these Regulations.
2. Based on, amongst other things, a 99 per cent, one-tailed confidence interval, and a minimum holding period of ten trading days.
3. May be based on a confidence interval and/or minimum holding period that differs from the requirements specified in these Regulations.
4. May not be equal to the sum of individual requirements calculated in respect of the respective risk categories or trading desks due to, amongst others, diversification benefits.
5. Please separately submit in writing the relevant desk description and other relevant information.
6. Refer to regulation 28(8)(h)(I)(E).

28. Market risk (position risk) - Directives and interpretations for completion of monthly return concerning market risk (Form BA 320)

- (1) The content of the relevant return is confidential and not available for inspection by the public.
- (2) The purpose of the form BA 320, amongst other things, is to measure and report the reporting bank's exposure to market risk or position risk arising from the bank's trading activities and specified banking activities.
- (3) In respect of-
 - (a) the current market value of any interest rate related instrument held in the reporting bank's trading book;
 - (b) the current market value of any equity instrument held in the reporting bank's trading book;
 - (c) any foreign exchange instrument held in the reporting bank's banking book or trading book, that is, any foreign-currency position held by the bank;
 - (d) any commodity position held in the reporting bank's banking book or trading book, that is, any commodity position held by the bank,

the reporting bank shall calculate a capital requirement in accordance with the relevant requirements specified in this regulation 28, provided that-

- (i) subject to such conditions as may be specified in writing by the Registrar, the Registrar may allow a bank to exclude from the said capital requirements such structural foreign exchange positions as may be specified in writing by the Registrar;
- (ii) when the bank internally hedges a credit exposure held in the bank's banking book using a credit-derivative instrument held in the bank's trading book, the banking book exposure shall be deemed not to be hedged for purposes of calculating the bank's required amount of capital and reserve funds unless the bank purchased from an eligible third party protection provider a credit-derivative instrument that complies with the relevant requirements specified in regulations 23(9)(d)(xi)(B) and 23(9)(e), provided that when the bank purchased and recognises the third party protection as a hedge of the said banking book exposure as envisaged in this subparagraph (ii), neither the internal nor external credit derivative hedge shall be included in the bank's trading book for the purposes of these Regulations;

- (iii) the bank shall in accordance with the relevant requirements specified in regulations 23(6)(j), 23(8)(j), 23(11)(q) and 23(13)(e) deduct from its capital and reserve funds any instrument held that qualifies as capital of the reporting bank, any other bank, any securities firm or other regulated institution, or that constitutes an intangible asset, provided that, subject to such conditions as may be specified in writing by the Registrar, the Registrar may in respect of instruments that qualify as capital of any other bank, securities firm or regulated institution grant approval for a bank that actively acts as a market maker in the said instruments to include the said instruments in its trading book and calculate a capital requirement in accordance with the relevant requirements specified in these Regulations instead of deducting the said amounts from the bank's capital and reserve funds;
- (iv) the bank may include in its trading book any term trading related repo-style transaction that complies with the relevant requirements specified in these Regulations in respect of trading positions, provided that-
 - (A) both legs of the said transaction shall be in the form of cash or securities otherwise eligible for inclusion in the bank's trading book;
 - (B) regardless whether the said transaction is recorded in the bank's banking book or trading book, all repo-style transactions shall be subject to the relevant requirements relating to counterparty credit risk specified in regulations 23(15) to 23(19).
- (v) based on the relevant requirements specified in regulations 23(15) to 23(20) read with the relevant risk weights envisaged in regulations 23(6), 23(8), 23(11) or 23(13) the bank shall, in addition to any relevant required amount of capital and reserve funds relating to specific risk or general risk calculated in accordance with the relevant requirements specified in this regulation 28, calculate the relevant required amount of capital and reserve funds relating to counterparty credit risk arising from any relevant OTC derivative instrument, repo-style transaction or other transaction held in the bank's trading book, including any relevant credit-derivative instrument, provided that the risk weights applied by the bank in respect of the relevant exposure to counterparty credit risk shall be consistent with the risk weights applied by the bank in respect of the bank's banking book credit exposure, that is-
 - (A) a bank that adopted the standardised approach in order to measure the bank's exposure to credit risk in respect of any banking book exposure shall apply the relevant risk weights envisaged in the said standardised approach in order to calculate the said required amount of capital and reserve funds relating to counterparty credit risk arising from any relevant OTC derivative instrument, repo-style transaction or other transaction held in the bank's trading book;

- (B) a bank that adopted the IRB approach in order to measure the bank's exposure to credit risk in respect of any banking book exposure shall apply the relevant risk weights envisaged in the said IRB approach in order to calculate the said required amount of capital and reserve funds relating to counterparty credit risk arising from any relevant OTC derivative instrument, repo-style transaction or other transaction held in the bank's trading book;
- (vi) in order to ultimately calculate the bank's required capital adequacy ratio the bank shall, based on the formula specified below, convert the bank's required amount of capital and reserve funds calculated in accordance with the relevant requirements specified in this regulation 28 to the required risk-weighted exposure amount.

$$\text{RWE} = K \times 12,5$$

where:

RWE is the required risk-weighted exposure amount

K is the required amount of capital and reserve funds calculated in accordance with the relevant requirements specified in this regulation 28.

(4) For the measurement of a bank's exposure to market risk (position risk) as envisaged in subregulation (3), the bank shall, at the discretion of the bank, use one of the alternative methodologies specified below.

- (a) The standardised approach envisaged in subregulation (7) below, which standardised approach is based on a building-block method;
- (b) Subject to the bank's compliance with specified conditions and the prior written approval of the Registrar, the internal models approach envisaged in subregulation (8) below; or
- (c) Subject to the bank's compliance with the conditions specified in subregulation (5) below, the prior written approval of the Registrar and such further conditions as may be specified in writing by the Registrar, a combination of the said standardised approach and internal models approach.

Provided that when a bank is unable, unwilling or unprepared to comply with the qualifying criteria specified for a particular approach for the measurement of the bank's exposure to market risk, the Registrar may in writing direct the bank to apply a different specified approach, subject to such conditions as may be specified in writing by the Registrar.

(5) *Combination of the internal models approach and the standardised approach*

When a bank adopts the internal models approach for the measurement of one or more risk categories such as interest rates, foreign exchange rates that include gold, equity prices or commodity prices, which risk categories shall include all related option volatilities, the bank shall during the time period specified in writing by the Registrar develop and implement an integrated risk measurement system that captures and measures the bank's aggregate exposure to market risk arising from all the said categories of risk, provided that-

- (a) unless specified otherwise in writing by the Registrar, once a bank developed and implemented one or more internal models for the measurement of-
 - (i) the bank's aggregate exposure to market risk; or
 - (ii) a particular category of risk such as interest rates or equity exposure,the bank shall not revert to the standardised approach specified in subregulation (7) in order to measure the bank's aggregate exposure to market risk or exposure to the said particular category of risk;
- (b) in exceptional circumstances the Registrar may allow a bank to continue applying the standardised approach in respect of an insignificant risk category, such as commodities;
- (c) any relevant exposure to market risk not captured by the bank's internal models shall be subject to the standardised approach specified in subregulation (7);
- (d) during the period when the bank uses a combination of approaches as envisaged in this subregulation (5)-
 - (i) the bank shall not use a combination of the said two approaches within a particular risk category or across the bank's different risk centres in respect of the same type of risk, that is, each risk category shall be assessed using either the internal models approach or the standardised approach;
 - (ii) the bank shall not modify the combination of the two approaches without the prior written approval of the Registrar;
 - (iii) the bank shall ensure that no element of market risk escapes the bank's measurement of risk, that is, all the relevant exposures arising from all the specified risk categories, whether calculated according to the standardised approach or internal models approach, shall be captured;
- (e) as a minimum, subject to any relevant requirements relating to minimum required capital and reserve funds that may be specified in or in terms of the provisions of regulation 38 of these Regulations, the bank's aggregate required amount of capital and reserve funds relating to market risk shall be equal to the sum of the amounts calculated in accordance with the relevant requirements specified in respect of the standardised approach and/or the internal models approach.

(6) A bank-

- (a) shall include in the monthly form BA 320 all relevant financial instruments and positions envisaged in subregulation (3);
- (b) shall include in the daily form BA 325 all financial instruments held as an open position in the bank's trading book;
- (c) shall include in the monthly form BA 330, amongst other things, all financial instruments held in the bank's banking book that expose the bank to interest-rate risk;
- (d) shall include in the monthly form BA 340 all equity exposures held in the bank's banking book;
- (e) shall include in the monthly form BA 350 all relevant derivative instruments held in the bank's banking book or trading book;
- (f) shall in the calculation of the bank's exposure to market risk and the related required amount of capital and reserve funds, from the date on which the relevant transaction was entered into, include all relevant on-balance sheet and off-balance sheet transactions, including any forward sale or purchase transaction;
- (g) shall manage its exposure to market risk arising from all relevant positions held in its trading book and/ or banking book in such a manner that the bank continuously complies, that is, at the close of each business day, with the relevant prescribed minimum required amount of capital and reserve funds relating to market risk;
- (h) shall have in place robust risk management policies, procedures, processes and systems in order to ensure that the bank's intraday exposures to market risk are within the approved internal limits set by the bank;
- (i) shall, in order to calculate the bank's adjusted exposure in respect of any collateral held in terms of a repurchase or resale agreement, which transaction is included in the bank's trading book, apply the comprehensive approach relating to collateral, prescribed in regulation 23(9)(b);
- (j) shall have in place a written board approved policy, and procedures, which policy and procedures-
 - (i) shall duly specify the criteria for determining which on-balance sheet items and which off-balance sheet items, or activities of the bank, are classified as part of the bank's trading book or activities, and which of the said items or activities are classified as part of the bank's banking book or activities;
 - (ii) shall duly specify the bank's appetite for trading, including the nature and extent of the bank's trading activities;

- (iii) shall take into account the bank's risk management capabilities and practices;
- (iv) shall be sufficiently robust to ensure-
 - (A) that any transfer of instruments, items or assets between the bank's trading book and banking book is duly documented and subject to audit verification;
 - (B) the bank's continued compliance with the requirements of these Regulations, including compliance with minimum required capital and reserve funds, and compliance with all the relevant requirements specified in the said board-approved policy, which compliance, amongst other things, shall be duly documented and be subject to periodic internal audit;
- (v) shall specify that any transfer of instruments, items or assets between the bank's trading book and banking book shall be recorded at arms-length prices;
- (vi) shall be reviewed by the bank on a regular basis but not less frequently than once a year;
- (vii) shall duly specify-
 - (A) the extent to which an exposure can be marked-to-market on a daily basis by reference to an active liquid two-way market;
 - (B) the extent to which the bank is able to and required to obtain or derive valuations for exposures, which valuation can be externally validated in a consistent manner;
 - (C) the extent to which legal restrictions or other operational requirements may impede the bank's ability to effect an immediate liquidation of relevant exposure;
 - (D) the extent to which the bank is required to and able to actively manage all relevant exposures within its trading operations;
 - (E) the extent to which the bank may transfer risk or exposures between the banking book and trading book, and criteria for the said transfers;
- (viii) shall in the case of exposures that are marked-to-model, duly specify the extent to which the bank is able-
 - (A) to identify the material risks relating to the relevant exposures;

- (B) to hedge the material risks arising from the said exposures and the extent to which any hedging instrument would have an active, liquid two-way market;
 - (C) to derive reliable estimates for the key assumptions and parameters used in the bank's model;
 - (k) shall, based on the relevant requirements relating to financial instruments in foreign exchange or commodity positions held in the bank's trading book, calculate and maintain capital and reserve funds in respect of such financial instruments or positions held in the bank's banking book;
 - (l) shall implement a robust risk management framework for the prudent valuation of positions held in the bank's trading book, which risk management framework, amongst other things, shall include the key elements specified in regulation 39(13);
 - (m) shall whenever relevant or required for reporting or calculation purposes, unless expressly stated otherwise in this regulation 28, convert all relevant gross or net foreign exchange or gold positions at the prevailing spot exchange rate.
- (7) *Method 1: standardised approach*
- (a) A bank that adopts the standardised approach for the measurement of the bank's exposure to market risk, which standardised approach is based on a building-block method-
 - (i) shall on a daily basis and in accordance with the relevant requirements specified in this subregulation (7) separately calculate its exposure to-
 - (A) specific risk and general market risk arising from all relevant debt and equity positions held in the bank's trading book;
 - (B) foreign exchange risk arising from all relevant foreign currency and gold positions held by the bank;
 - (C) commodity risk arising from all relevant commodity positions held by the bank;
 - (D) risks arising from all relevant positions in options.

- (ii) shall in order to measure the bank's exposure to price risk arising from option positions implement the more sophisticated methods specified in paragraph (f) below when the bank engages in the writing of options or when the bank conducts business in exotic options, provided that in the longer term a bank that is a significant trader in options, that is, a bank that holds unexpired positions in excess of 10 per cent of the aggregate amount of unexpired positions in the market, shall adopt and implement comprehensive value-at-risk models and shall be subject to the full range of quantitative and qualitative requirements specified in subregulation (8) below, and such further quantitative and qualitative requirements as may be specified in writing by the Registrar.

(b) Matters relating to debt securities and other interest rate related instruments

- (i) Based on the relevant requirements specified in this paragraph (b), in respect of any relevant position in a debt security or interest rate instrument held by the reporting bank in its trading book, including-
 - (A) any fixed-rate debt security or floating-rate debt security, or similar instrument;
 - (B) any non-convertible preference share; and
 - (C) any convertible debt instrument or preference share trading in a manner similar to a debt security,

the reporting bank shall separately calculate the relevant minimum required amount of capital and reserve funds relating to specific risk and general risk.

(ii) Matters relating to specific risk

A bank that adopted the standardised approach for the measurement of the bank's exposure to market risk-

- (A) may in the calculation of the bank's risk position offset matching positions in respect of identical instruments, including any relevant position arising from a derivative instrument, that is, even when the issuer of instruments is the same, the bank shall not offset positions arising from different issues since, for example, differences in coupon rates, liquidity or call features may cause prices to diverge in the short-term;
- (B) shall in respect of any relevant net short or long position relating to a government, qualifying, specified non-qualifying or other exposure calculate the bank's capital requirement relating to specific risk in accordance with the relevant requirements specified in table 1 below.

Table 1

Position in respect of-	Description of position and specific risk capital requirement						
Government ^{1, 2}	External credit assessment						Unrated
	AAA to AA-	A+ to BBB-			BB+ to B-	Below B-	
		Residual term to maturity of-					
		Up to 6 months	More than 6 months but less than or equal to 24 months	More than 24 months			
		0%	0.25%	1%			
Central government or central bank of RSA ^{1, 2, 3}	0%						
Qualifying ⁴	Residual term to maturity of-						
	Up to 6 months		More than 6 months but less than or equal to 24 months		More than 24 months		
	0.25%		1%		1.60%		
Specified non-qualifying issuers ⁵	Capital requirement calculated in accordance with the relevant requirements specified in item (C) below						
Other	External credit assessment						Unrated
	BB+ to BB-			Below BB-			
	8%			12%		8%	

1. Includes forms of government that qualify for a risk weight of zero per cent in terms of the provisions of regulation 23(6).
2. Includes instruments such as bonds and treasury bills and other short-term instruments.
3. Provided that the relevant instrument is denominated, and funded by the bank, in Rand.
4. Includes-
 - (a) securitised issued by public sector entities and multilateral development banks;
 - (b) any instrument rated investment grade, that is, a rating of BBB- or an equivalent rating, or a better rating, which rating shall be issued in respect of the relevant instrument by no less than two eligible institutions;
 - (c) any instrument rated investment grade, that is, a rating of BBB- or an equivalent rating, by one eligible institution, and not less than investment grade by another eligible institution;
 - (d) any unrated instrument issued by any institution rated investment grade, that is, a rating of BBB- or an equivalent rating, or a better rating, provided that the said institution shall be subject to comparable supervisory and regulatory arrangements than banks in the RSA, including, in particular, risk-based capital requirements and regulation and supervision on a consolidated basis, and the bank has no reason to suspect that the said unrated instrument is of a lesser quality than investment grade;
 - (e) subject to such conditions as may be specified in writing by the Registrar, any other unrated or other instrument specified in writing by the Registrar.
5. Includes instruments issued in respect of a securitization scheme, such as a first-loss credit-enhancement facility, an unrated liquidity facility or a letter of credit.

- (C) shall in the case of a securitisation or resecuritisation exposure calculate the bank's specific risk capital requirement in accordance with the relevant requirements specified in regulation 23(6)(h), 23(8)(h), 23(11) or 23(13), as the case may be, provided that-
- (i) in respect of the relevant net securitization or resecuritisation position held in the bank's trading book, a bank that adopted the standardized approach for the measurement of the bank's exposure to credit risk shall in the case of a securitization or resecuritisation exposure that is externally rated calculate its capital requirement relating to specific risk in accordance with the relevant requirements specified in table 2 below:

Table 2
Specific risk capital requirement based on external rating

External credit assessment ¹	Long-term rating ¹				
	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	Below BB- or unrated
Securitisation exposure	1.6%	4%	8%	28%	Deduct ²
Resecuritisation exposure	3.2%	8%	18%	52%	Deduct ²
External credit assessment ¹	Short-term rating ¹				
	A-1/ P-1	A-2/ P-2	A-3/ P3	Below A-3/ P-3 or unrated	
Securitisation exposure	1.6%	4%	8%	Deduct ²	
Resecuritisation exposure	3.2%	8%	18%	Deduct ²	

1. The notations used in this table relate to the ratings applied by a particular credit assessment institution. The use of the rating scale of a particular credit assessment institution does not mean that any preference is given to a particular credit assessment institution, and the assessments/ rating scales of other external credit assessment institutions, recognised as eligible institutions in South Africa, may have been used instead.
2. The bank shall deduct from its primary share capital and primary unimpaired reserve funds 50 per cent of the relevant amount and from its secondary capital and secondary unimpaired reserve funds the remaining 50 per cent.

- (ii) in respect of the relevant net securitization or resecuritisation position held in the bank's trading book, a bank that adopted the IRB approach for the measurement of the bank's exposure to credit risk shall in the case of a rated securitization or resecuritisation exposure calculate its capital requirement relating to specific risk in accordance with the relevant requirements specified in table 3 below:

Table 3
Specific risk capital requirement based on external rating

Specific Risk Capital Requirement Based On External Rating

External long-term rating ¹	Securitisation exposure			Resecuritisation exposure	
	Senior, granular position ^{2, 3}	Non-senior, granular ⁵	Non-granular ⁴	Senior ⁶	Non-senior
AAA	0.56%	0.96%	1.60%	1.60%	2.40%
AA	0.64%	1.20%	2.00%	2.00%	3.20%
A+	0.80%	1.44%	2.80%	2.80%	4.00%
A	0.96%	1.60%		3.20%	5.20%
A-	1.60%	2.80%		4.80%	8.00%
BBB+	2.80%	4.00%		8.00%	12.00%
BBB	4.80%	6.00%		12.00%	18.00%
BBB-	8.00%			16.00%	28.00%
BB+	20.00%			24.00%	40.00%
BB	34.00%			40.00%	52.00%
BB-	52.00%			60.00%	68.00%
Below BB-	Deducted from capital and reserve funds				
External short-term rating ¹	Securitisation exposure			Resecuritisation exposure	
	Senior, granular position ^{2, 3}	Non-senior, granular ⁵	Non-granular ⁴	Senior ⁶	Non-senior
A-1/P-1	0.56%	0.96%	1.60%	1.60%	2.40%
A-2/P-2	0.96%	1.60%	2.80%	3.20%	5.20%
A-3/P-3	4.80%	6.00%		12.00%	18.00%
Below A-3/P-3-	Deducted from capital and reserve funds				

1. The notations used in this table relate to the ratings used by a particular credit assessment institution. The use of the rating scale of a particular credit assessment institution does not mean that any preference is given to a particular credit assessment institution. The assessments/ rating scales of other external credit assessment institutions, recognised as eligible institutions in the RSA, may have been used instead.
2. Relates to senior positions in a securitisation scheme that consists of an effective number of underlying exposures of no less than 6, which effective number of exposures shall be calculated in accordance with the relevant requirements specified in regulation 23(11)(n), and where senior position means an effective first claim in respect of the entire amount of the assets/exposures in the underlying securitised pool. For example, in the case of-
 - (a) a synthetic securitisation scheme the "super-senior" tranche shall be treated as a senior position, provided that the bank complies with the relevant conditions specified in regulation 23(11)(f) to infer a rating from a lower tranche.
 - (b) a traditional securitisation scheme, in which scheme all tranches above the first-loss position are rated, the highest rated position shall be treated as a senior position, provided that when several tranches share the same rating the most senior position in the waterfall of payment shall be treated as the senior position.
3. Including eligible senior exposures that comply with the relevant requirements specified in regulations 23(11)(g) and 23(11)(h) relating to the internal assessment approach.
4. Relates to a senior position in a securitisation scheme in which the effective number of underlying exposures, calculated in accordance with the relevant requirements specified in regulation 23(11)(n), is less than 6.
5. Relates to all positions other than a senior position, such as a position/facility that, in economic substance, constitutes a mezzanine position and not a senior position in respect of the underlying pool.
6. Means a resecuritisation exposure that is a senior position and none of the underlying exposures are resecuritisation exposures, that is, any resecuritisation exposure in respect of which the underlying exposure includes a resecuritisation exposure shall be categorised as a non-senior resecuritisation position or exposure.

- (iii) subject to any conditions specified in writing by the Registrar, in respect of an unrated position-
 - (aa) a bank that obtained the approval of the Registrar to apply the IRB approach for the relevant asset classes related to the underlying exposures, may apply the standard formula approach specified in regulation 23(11)(i), provided that, when estimating the relevant PDs and LGDs for the calculation of K_{IRB} , the bank shall comply with the relevant minimum requirements related to the IRB approach;
 - (bb) to the extent that the bank obtained the approval of the Registrar to apply the bank's internally developed VaR model that incorporates specific risk related to the underlying exposures, as envisaged in regulation 28(8)(h) of these Regulations, and the bank derives estimates for PDs and LGDs from the said internally developed VaR model, the bank may use the aforesaid estimates for the calculation of K_{IRB} , and consequently for applying the standard formula approach;
 - (cc) other than the unrated positions specifically referred to above, the bank shall calculate the relevant required amount of capital and reserve funds related to specific risk as follows:
 - (i) multiply the weighted average risk weight that would be applied to the securitised exposures under the standardised approach with eight per cent; and
 - (ii) multiply the aforesaid product, calculated in accordance with the provisions of sub-item (i) above, with a concentration ratio, which concentration ratio shall be calculated as the sum of the nominal or notional amounts of all the relevant tranches divided by the sum of the nominal or notional amounts of the tranches junior to or ranking *pari passu* with the tranche in which the position is held, including that tranche itself, provided that when the said concentration ratio is equal to 12.5, or higher, the bank shall deduct from its primary share capital and primary unimpaired reserve funds 50 per cent of the relevant position held and from its secondary capital and secondary unimpaired reserve funds the remaining 50 per cent of the relevant position held;

Provided that the bank's required amount of capital and reserve funds related to specific risk in respect of an unrated position shall in no case be lower than the specific risk capital requirement related to a rated more senior tranche. When the bank is unable to determine the specific risk capital requirement as described hereinbefore or prefers not to apply the treatment specified above, the bank shall deduct from its capital and reserve funds the relevant amount of the unrated position.

- (iv) during such transition period as may be directed by the Registrar in writing, in respect of any relevant securitisation position not included in the bank's correlation trading portfolio, a bank's required amount of capital and reserve funds for specific risk arising from securitisation positions held in the bank's trading book shall be calculated separately from the bank's relevant required amount of capital and reserve funds related to its correlation trading portfolio, and shall be the higher of-
 - (aa) the bank's total required amount of capital and reserve funds for specific risk arising from the bank's relevant net long securitisation positions held in the trading book; or
 - (bb) the bank's total required amount of capital and reserve funds for specific risk arising from the bank's relevant net short securitisation positions held in the trading book;
 - (v) any position subject to deduction in accordance with the provisions of subitems (i) to (iii) of this item (C) may be excluded from the bank's calculation of its required amount of capital and reserve funds for general market risk, irrespective whether the bank applies the standardised measurement method or internal models method;
 - (vi) in respect of the bank's correlation trading portfolio, the bank shall calculate its specific risk capital requirement in accordance with the relevant requirements specified in item (F) below;
- (D) shall in respect of any relevant position hedged by a credit-derivative instrument, other than an n-th-to-default credit derivative instrument, calculate the bank's specific risk capital requirement in accordance with the relevant requirements specified in this item (D), provided that in the case of an n-th-to-default credit derivative instrument the bank shall calculate its specific risk capital requirement in accordance with the relevant requirements specified in item (E) below.

When-

- (i) the values of the relevant long leg and short leg always move in opposite directions, and materially to the same extent, that is, when-

- (aa) the two legs consist of identical instruments, or

- (bb) a long cash position is hedged by a total return swap, or *vice versa*, and an exact match exists between the reference obligation and the underlying exposure, that is, the cash position, irrespective whether or not the maturity of the said swap contract differs from the maturity of the relevant underlying exposure,

the reporting bank may fully offset the two sides of the position, that is, the reporting bank shall be exempted from any specific risk capital requirement in respect of the said hedged position.

- (ii) the values of the relevant long leg and short leg always move in opposite directions, but not to the same extent, that is, when a long cash position is hedged by a credit default swap or credit linked note, or *vice versa*, and in all cases an exact match exists in respect of the reference obligation, the maturity of the reference obligation and the credit derivative instrument, and the currency to the underlying exposure, the reporting bank may apply an eighty per cent specific risk offset in respect of the side of the transaction with the higher capital requirement, and a specific risk requirement of zero in respect of the other leg, provided that-

- (aa) the key features of the credit derivative contract, such as the credit event definitions and settlement mechanism, shall not cause the price movement of the credit derivative instrument materially to deviate from the price movement of the cash position; and

- (bb) based on matters such as restrictive payout provisions, such as fixed payouts and materiality thresholds, the transaction shall materially transfer risk.

- (iii) the values of the relevant long leg and short leg usually move in the opposite direction, that is-

- (aa) a long cash position is hedged by a total return swap, or *vice versa*, as envisaged in sub-item (i) above, but an asset mismatch exists between the reference obligation and the underlying exposure, and the requirements relating to an asset mismatch specified in regulation 23(9)(d)(xi)(B)(xviii) are met;

- (bb) the relevant two legs relate to identical instruments as envisaged in sub-item (i) above but a currency or maturity mismatch exists between the credit protection and the underlying asset;
- (cc) the relevant positions meet the relevant requirements specified in sub-item (ii) above except that a currency or maturity mismatch exists between the credit protection and the underlying asset; or
- (dd) the relevant positions meet the relevant requirements specified in sub-item (ii) above but an asset mismatch exists between the cash position and the credit derivative instrument, and the underlying asset is included in the deliverable obligations in terms of the credit derivative documentation,

the reporting bank shall calculate and maintain a capital requirement only in respect of the side of the transaction with the highest capital requirement, that is, instead of adding the specific risk capital requirements for each side of the relevant transaction in respect of the credit protection and the underlying asset the reporting bank shall calculate and maintain a capital requirement only in respect of the side of the transaction that requires the highest capital requirement.

- (iv) the relevant hedged position relates to a position other than the positions envisaged in sub-items (i) to (iii) above, the reporting bank shall calculate and maintain a capital requirement in respect of both sides of the relevant transaction;
- (E) shall in the case of an n-th-to-default credit derivative instrument, that is, a contract or instrument in respect of which the payment or payoff is based on the n-th asset to default in the basket of underlying reference assets or instruments, calculate the bank's specific risk capital requirement in accordance with the relevant requirements specified in this item (E).

The bank's capital requirement for specific risk shall in the case of a first-to-default credit derivative instrument be the lesser of the sum of the specific risk capital requirements for the individual reference assets or credit instruments in the basket, or the maximum possible credit event payment in terms of the contract, provided that-

- (i) when the bank has a risk position in one of the reference assets or credit instruments underlying the first-to-default credit derivative instrument, and the said credit derivative instrument hedges the bank's risk position, the bank may reduce both the capital requirement for specific risk for the relevant reference asset or credit instrument and that part of the capital requirement for specific risk for the credit derivative instrument that relates to the particular reference credit instrument, provided that when the bank has multiple risk positions in reference assets or credit instruments underlying a first-to-default credit derivative instrument the offset shall be allowed only in respect of the underlying asset or reference credit instrument with the lowest specific risk capital requirement;
 - (ii) when "n" is greater than one, the bank's capital requirement for specific risk shall be the lesser of the sum of the specific risk capital requirements for the individual reference assets or credit instruments in the basket, but disregarding the "n-1" obligations with the lowest specific risk capital requirement, or the maximum possible credit event payment in terms of the contract, provided that in the case of n-th-to-default credit derivative instruments where "n" is greater than 1 no offset of the capital requirement for specific risk with any underlying reference asset or credit instrument shall be allowed;
 - (iii) when a first or other n-th-to-default credit derivative instrument is externally rated, a bank that acts as a protection seller shall calculate its specific risk capital requirement based on the said rating issued in respect of the derivative instrument and the relevant securitisation risk weights specified in item (C) above;
 - (iv) the capital requirement shall apply in respect of each net n-th-to-default credit derivative position, irrespective whether the bank has a long position or short position, that is, irrespective whether the bank obtains or provides protection;
- (F) shall in respect of the bank's correlation trading portfolio calculate its relevant required amount of capital and reserve funds for specific risk in accordance with the relevant requirements specified in this item (F).

The-

- (i) bank shall separately calculate the relevant required amount of capital and reserve funds related to specific risk in respect of its net long positions, that is, based on its net long correlation trading exposures combined;
- (ii) bank shall separately calculate the relevant required amount of capital and reserve funds related to specific risk in respect of its net short positions, that is, based on its net short correlation trading exposures combined;

- (iii) bank's required amount of capital and reserve funds for specific risk in respect of its correlation trading portfolio shall be the higher amount of sub-item (i) or sub-item (ii), of this item (F).

Provided that a bank may limit the required amount of capital and reserve funds in respect of any relevant individual position in a credit derivative or securitisation instrument to the maximum possible loss, that is-

- (A) a bank shall calculate a maximum possible loss amount for each relevant individual position;
 - (B) in the case of a short risk position the limit may be calculated as a change in value due to the underlying names immediately becoming default risk-free;
 - (C) in the case of a long risk position, the maximum possible loss amount may be calculated as the change in value in the event that all the underlying names were to default with a zero or no recovery.
- (iii) Matters relating to general risk
- (A) A bank that adopted the standardised approach for the measurement of the bank's exposure to market risk-
 - (i) may in order to calculate the bank's general risk requirement, at the discretion of the bank, apply either the maturity method prescribed in item (B) below or duration method prescribed in item (C) below;
 - (ii) shall apply a separate maturity ladder in respect of each relevant currency, provided that subject to the approval of and such conditions as may be specified in writing by the Registrar the reporting bank may apply a single maturity ladder in respect of currencies in which the bank's business is insignificant in which case the reporting bank shall within each relevant time band-
 - (aa) assign the relevant net long or short position in respect of each relevant currency;
 - (bb) in order to calculate the bank's relevant gross position, irrespective whether or not a net position is long or short, aggregate the relevant net long positions and relevant net short positions;
 - (iii) shall in respect of each relevant currency separately calculate the bank's relevant required amount of capital and reserve funds;

- (iv) shall unless specifically otherwise provided in this regulation 28 base its calculation of the required amount of capital and reserve funds on the absolute amount of all relevant calculated positions, that is, unless specifically otherwise provided the reporting bank shall not apply offsetting between calculated positions or requirements of opposite sign, provided that in respect of any debt instrument with a high yield to redemption the Registrar may disallow offsetting of the relevant position against other relevant positions even when provision is otherwise made in terms of these Regulations for the bank to offset the said positions;
- (v) shall in the case of a credit-default swap include any relevant periodic premium or interest payment due as a notional position in a government bond with the relevant fixed or floating rate;
- (vi) shall in the case of a total return swap contract include the relevant interest rate legs of the contract as a notional short or long position, as the case may be;
- (vii) shall in the case of a credit-linked note in terms of which the bank acts as a protection provider include in its measurement system the relevant coupon or interest rate exposure of the said note;
- (viii) shall in accordance with the relevant requirements specified in items (B) or (C) below calculate and maintain a capital requirement in respect of general risk equal to the sum of the specified requirements relating to-
 - (aa) the relevant net short or long position in respect of the bank's entire trading book;
 - (bb) the relevant portion in respect of the specified offsetting positions within each relevant time-band;
 - (cc) the relevant portion in respect of the specified offsetting positions across different time-bands;
 - (dd) the relevant net requirement in respect of specified positions in options.

(B) Maturity method

A bank that adopted the maturity method for the measurement of the bank's exposure to general risk-

- (i) shall assign to the relevant maturity band specified in the maturity ladder specified in table 4 below the relevant actual or notional amount relating to each relevant long or short position in a debt security or other instrument of interest rate exposure held in the reporting bank's trading book, including any relevant derivative instrument, provided that the bank may omit from the said interest rate maturity framework opposite positions of the same amount and in respect of the same issue, but not in respect of different issues by the same issuer.

Table 4
Maturity method: time bands and weights^{1,2}

Time zone	Coupon equal to or more than 3%	Coupon less than 3% ³	Risk weight (%)	Assumed change in yield
	Maturity band			
1	0 ≤ 1 month	0 ≤ 1 month	0.00	1.00
	> 1 ≤ 3 months	> 1 ≤ 3 months	0.20	1.00
	> 3 ≤ 6 months	> 3 ≤ 6 months	0.40	1.00
	> 6 ≤ 12 months	> 6 ≤ 12 months	0.70	1.00
2	> 1 ≤ 2 years	> 1.0 ≤ 1.9 years	1.25	0.90
	> 2 ≤ 3 years	> 1.9 ≤ 2.8 years	1.75	0.80
	> 3 ≤ 4 years	> 2.8 ≤ 3.6 years	2.25	0.75
3	> 4 ≤ 5 years	> 3.6 ≤ 4.3 years	2.75	0.75
	> 5 ≤ 7 years	> 4.3 ≤ 5.7 years	3.25	0.70
	> 7 ≤ 10 years	> 5.7 ≤ 7.3 years	3.75	0.65
	> 10 ≤ 15 years	> 7.3 ≤ 9.3 years	4.50	0.60
	> 15 ≤ 20 years	> 9.3 ≤ 10.6 years	5.25	0.60
	> 20 years	> 10.6 ≤ 12.0 years	6.00	0.60
		> 12.0 ≤ 20.0 years	8.00	0.60
	> 20 years	12.50	0.60	

1. Based on the residual term to maturity the bank shall assign to the relevant time band the relevant position arising from any fixed rate instrument.
2. Based on the residual term to the next repricing date the bank shall assign to the relevant time band the relevant position arising from any floating-rate instrument.
3. Including any zero-coupon bond or deep-discount bond.

- (ii) shall, based on the relevant weights specified in table 4 above, which weights reflect the price sensitivity of all relevant positions to assumed changes in interest rates, weight all relevant positions assigned by the bank to the relevant maturity band;
- (iii) shall in order to determine a single short or long position in respect of each specified maturity band offset the weighted long positions and weighted short positions within the said maturity band;
- (iv) shall in respect of the lower aggregate amount of the relevant long or short positions in a particular maturity band calculate a 10 per cent capital requirement in order to reflect basis risk and gap risk since each relevant maturity band will include different instruments and different maturities. For example, when the sum of the weighted long positions in a particular time band is equal to R100 million and the sum of the weighted short positions in the said time band is equal to R90 million, the deemed amount in respect of vertical disallowance for the particular time band shall be equal to 10 per cent of R90 million, that is, R9.0 million;
- (v) shall offset the relevant net positions **within** each of the relevant three time zones specified in table 4 above, and subsequently offset the relevant calculated net positions **between** the three different time zones specified in table 4 above, provided that the said offsetting of net positions shall be subject to a scale of disallowances, which disallowance factors are specified in table 5 below and are expressed as a fraction of the relevant calculated matched and unmatched positions, that is, the reporting bank shall offset the weighted long positions and weighted short positions **within** each of the three specified time zones and subsequently offset the residual net position in each relevant time zone against opposite positions in the other time zones, provided that the said offsetting of positions within and between the relevant time zones shall be subject to the disallowance factors specified in table 5 below, which disallowance factors shall constitute a separate component of the reporting bank's required amount of capital and reserve funds.

Table 5
Horizontal disallowances

Time zone¹	Disallowance factor within the relevant time zone	Disallowance factor between adjacent time zone	Disallowance factor between time zones 1 and 3
1	40%		
		40%	
2	30%		100%
		40%	
3	30%		

1. Based on the maturity bands specified in table 4 above.

- (vi) shall maintain a capital requirement equal to 100 per cent of any residual position not subject to any form of offsetting as envisaged in sub-items (iii) to (v) above, provided that subject to such conditions as may be specified in writing by the Registrar, the Registrar may for purposes of calculating a bank's exposure to general risk disallow the said reporting bank to offset certain positions relating to high yield instruments against any other debt instruments;
 - (vii) shall in the case of residual currencies as envisaged in item (A)(ii) above apply the risk weights specified in table 4 above in respect of the gross positions calculated in respect of each relevant time band, with no further offsets;
 - (viii) shall maintain an aggregate capital requirement in respect of the maturity method equal to the sum of the relevant amounts specified in this item (B).
- (C) Duration method

A bank that wishes to adopt the duration method for the measurement of the bank's exposure to general risk, which method provides a more accurate measure of the bank's exposure to general risk than the maturity method due to the separate measurement of the price sensitivity of each relevant position-

- (i) shall obtain the prior written approval of the Registrar and at all times, in addition to the relevant requirements specified in this paragraph (b), comply with such requirements as may be specified in writing by the Registrar;

(ii) shall, based on-

- (aa) the maturity of each relevant instrument;
- (bb) the relevant requirements specified in table 6 below; and
- (cc) the relevant requirements specified in this item (C),

separately measure the price sensitivity of each relevant instrument in terms of a change in interest rates of between 0.6 and 1.0 percentage points.

Table 6
Duration method: time bands and assumed changes in yield

Time zone	Duration	Assumed change in yield
1	0 ≤ 1 month	1,00
	> 1 ≤ 3 months	1,00
	> 3 ≤ 6 months	1,00
	> 6 ≤ 12 months	1,00
2	> 1,0 ≤ 1,9 years	0,90
	> 1,9 ≤ 2,8 years	0,80
	> 2,8 ≤ 3,6 years	0,75
3	> 3,6 ≤ 4,3 years	0,75
	> 4,3 ≤ 5,7 years	0,70
	> 5,7 ≤ 7,3 years	0,65
	> 7,3 ≤ 9,3 years	0,60
	> 9,3 ≤ 10,6 years	0,60
	> 10,6 ≤ 12,0 years	0,60
	> 12,0 ≤ 20,0 years	0,60
	> 20 years	0,60

- (iii) shall assign to the relevant time band specified in the duration-based ladder specified in table 6 above the calculated sensitivity measure of the relevant instrument or position;
- (iv) shall in a manner similar to the method specified in item (B)(iv) above, in order to capture basis risk in respect of the relevant long positions and short position **within** each relevant time band, calculate and maintain a 5 per cent capital requirement, which capital requirement shall constitute the vertical disallowance component;
- (v) shall subsequently carry forward the relevant net position in each relevant time band and offset the said net positions **within** and **between** the relevant time zones in accordance with and subject to the relevant requirements and horizontal disallowance factors specified in item (B)(v) and in table 5 above;

- (vi) shall maintain a capital requirement equal to 100 per cent of any residual position not subject to any form of offsetting as envisaged in sub-items (iv) and (v) above, provided that subject to such conditions as may be specified in writing by the Registrar, the Registrar may for purposes of calculating a bank's exposure to general risk disallow the said reporting bank to offset certain positions relating to high yield instruments against any other debt instruments;
 - (vii) shall in the case of residual currencies as envisaged in item (A)(ii) above apply the assumed change in yield specified in table 6 above in respect of the gross positions calculated in respect of each relevant time band, with no further offsets.
- (iv) Matters relating to interest rate derivative instruments
 - (A) Irrespective of the measurement system adopted by the reporting bank for the measurement of the bank's exposure to market risk the bank shall include in its calculation of market risk exposure all interest rate derivative instruments and off-balance sheet instruments that respond to changes in interest rates, which instruments are held by the bank in its trading book, including any forward rate agreement, any other forward contract, any bond future, any interest rate or cross-currency swap contract or any forward foreign exchange position, provided that the reporting bank-
 - (i) shall calculate all relevant positions in accordance with the relevant requirements specified in item (B) below;
 - (ii) shall calculate all relevant capital requirements relating to derivative instruments in accordance with the relevant requirements specified in item (C) below.
 - (B) Matters relating to the calculation of positions in interest rate derivative instruments

A bank that adopted the standardised method for the measurement of the bank's exposure to market risk shall convert all relevant transactions in derivative instruments into positions in the relevant underlying instrument and calculate the relevant specific risk and general risk requirements in accordance with the relevant requirements specified in this paragraph (b), provided that-

 - (i) the bank shall base all relevant calculations on the market value of the principal amount relating to the relevant underlying or notional underlying;

- (ii) in the case of any instrument in respect of which the notional amount differs from the effective notional amount, the bank shall use the effective notional amount;
- (iii) in the case of any future contract on a corporate bond index, the bank shall include the relevant positions at the market value of the notional underlying portfolio of securities;
- (iv) in the case of any future or forward contract, including any forward rate agreement, the bank shall treat the contract as a combination of a long position and a short position in a notional government security, provided that the maturity of the said future or forward rate agreement shall be the period until delivery or exercise of the contract plus the life of the underlying instrument when relevant. For example, a long position in a June three month interest rate future, which contract is concluded in April, shall be reported as a long position in a government security with a maturity of five months and a short position in a government security with a maturity of two months.

When a range of deliverable instruments may be delivered to fulfil the relevant requirements of a contract, the bank may decide which deliverable security should be included in the maturity or duration ladder, provided that the bank shall take into consideration any conversion factor defined by the relevant exchange.

- (v) in the case of any swap contract the bank shall treat the relevant positions as two notional positions in government securities with relevant maturities. For example, an interest rate swap contract in terms of which the reporting bank receives floating rate interest and pays fixed interest shall be treated as a long position in a floating rate instrument of maturity equivalent to the period until the next interest fixing and a short position in a fixed-rate instrument of maturity equivalent to the residual life of the swap contract;
- (vi) in the case of a swap contract that pays or receives a fixed or floating interest rate against some other reference price, such as a stock index, the bank shall include the interest rate component in the relevant repricing maturity category, with the equity component being included in the equity framework in accordance with the relevant requirements specified in paragraph (c) below;
- (vii) in the case of a cross-currency swap contract the bank shall report the relevant separate legs of the contract in the relevant maturity ladders relating to the currencies concerned.

(C) Matters relating to the calculation of capital requirements relating to positions in interest rate derivative instruments

In respect of specific risk and general risk a bank may exclude from the relevant interest rate maturity framework long positions and short positions, irrespective whether the said positions are actual or notional positions, in respect of identical instruments issued by the same issuer and which instruments have the same coupon and maturity and are denominated in the same currency, including any matched position in respect of a future or forward and its corresponding underlying, provided that-

- (i) in the case of a future contract the bank shall report the relevant leg that represents the time to expiry of the said future contract;
- (ii) when the future or forward contract comprises a range of deliverable instruments the reporting bank shall only offset positions in the said future or forward contract and its relevant underlying when a readily identifiable underlying security that is most profitable for the person with the short position to deliver, exists, the price of which security, often referred to as the "cheapest-to-deliver", and the price of the said future or forward contract are likely to move in close alignment;
- (iii) the reporting bank shall in no case apply offsetting between positions in different currencies, that is, the reporting bank shall include in the relevant calculation of each currency the relevant separate legs relating to any cross-currency swap or forward foreign exchange contract, which legs shall be recorded as notional positions in the relevant instruments;
- (iv) the reporting bank may fully offset opposite positions in the same category of instruments, including the relevant delta-equivalent value in respect of options, provided that the said positions shall relate to the same underlying instruments, be of the same nominal value and be denominated in the same currency, and in the case of-
 - (aa) any future contract the offsetting positions in the notional or underlying instruments to which the future contract relates shall be for identical products and mature within seven days of each other;
 - (bb) any floating rate position arising from a swap or FRA contract the reference rate shall be identical and the coupon shall be closely matched, that is, the coupon shall be within 15 basis points;

- (cc) any swap, FRA or forward contract, the next interest fixing date or, in the case of any fixed coupon position or forward, the residual maturity-
 - (i) shall be the same day for positions less than one month hence;
 - (ii) shall be within seven days for positions between one month and one year hence;
 - (iii) shall be within thirty days for positions over one year hence;
- (v) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, a bank with a large swap book may use alternative formulae in order to calculate the swap positions to be included in the relevant maturity or duration ladder specified in this paragraph (b), provided that-
 - (aa) all relevant positions shall be denominated in the same currency;
 - (bb) the calculated positions shall fully reflect the sensitivity of the cash flows to interest rate changes; and
 - (cc) the reporting bank shall capture all relevant calculated positions in the appropriate time bands.

For example, a bank may first convert the payments required by the swap into the respective present values by discounting each payment using zero coupon yields, in which case, based on the relevant requirements, general risk framework and time band specified above, the bank shall capture a single net amount relating to the present value of the cash flows in the appropriate time band by applying the relevant procedures that apply to zero or low coupon bonds. Alternatively the reporting bank may calculate the sensitivity of the net present value implied by the change in yield specified in the maturity or duration method and allocate the said sensitivity measures into the relevant time bands specified in this paragraph (b).

- (vi) in the case of any interest rate or currency swap, FRA, forward foreign exchange contract, interest rate future or future on an interest rate index such as JIBAR, no specific risk requirement shall apply;

- (vii) in the case of any future contract in respect of which the underlying instrument is a debt security, or an index representing a basket of debt securities, the reporting bank shall, based on the credit risk of the issuer and the relevant requirements specified in this paragraph (b), calculate the relevant specific risk requirement;
- (viii) subject to the specific exemptions specified in this item (C), based on the relevant requirements specified in this paragraph (b), the reporting bank shall calculate a general risk requirement in respect of all relevant positions in derivative instruments, in a manner similar to any cash position.

(c) Matters relating to equity instruments and equity position risk

- (i) Based on the relevant requirements specified in this paragraph (c), in respect of any relevant long or short equity position held by the reporting bank in its trading book-

(A) including-

- (i) any instrument that exhibits market behaviour similar to equities;
- (ii) any ordinary shares, irrespective whether or not the said shares have voting rights attached to them;
- (iii) any commitment to buy or sell equity securities;
- (iv) any convertible instrument that trades in a manner similar to an equity instrument,

- (B) excluding non-convertible preference shares, which preference shares are subject to the requirements specified in paragraph (b) above,

the reporting bank shall separately calculate the relevant minimum required amount of capital and reserve funds relating to specific risk and general risk, provided that, unless specifically otherwise provided in this paragraph (c), the bank may report long positions and short positions in respect of the same issue on a net basis.

(ii) Matters relating to specific risk

In respect of a bank's gross equity positions, that is, the sum of all relevant long equity positions **and** all relevant short equity positions, held in the bank's trading book, a bank that adopted the standardised approach for the measurement of the bank's exposure to market risk shall on a market by market basis, that is, in respect of each relevant national market or currency in which the reporting bank holds equities, calculate and maintain a minimum required amount of capital and reserve funds relating to specific risk, which required amount of capital and reserve funds-

- (A) shall in the case of a less liquid equity portfolio that complies with such requirements or criteria as may be specified in writing by the Registrar be equal to twelve per cent of the said gross equity position;
- (B) shall in all other cases be equal to eight per cent of the said gross equity position.

(iii) Matters relating to general risk

In respect of a bank's net position in a specific equity market or equity index, that is, the **difference** between the sum of all relevant long equity positions and the sum of all relevant short equity positions in a particular national equity market or equity index, held in the bank's trading book, a bank that adopted the standardised approach for the measurement of the bank's exposure to market risk shall calculate and maintain a minimum required amount of capital and reserve funds relating to general risk equal to eight per cent of the said net equity position.

(iv) Matters relating to equity derivative instruments

A bank that adopted the standardised approach for the measurement of the bank's exposure to market risk shall include in its measurement system all equity derivative instruments and off-balance sheet positions that are affected by changes in equity prices, including any future or swap contract on individual equities or stock indices, provided that-

- (A) the bank shall measure and report any equity position arising from an option contract in accordance with the relevant requirements specified in paragraph (f) below instead of in accordance with the requirements specified in this paragraph (c);
- (B) the reporting bank shall convert all relevant derivative positions into notional equity positions in the relevant underlying instruments;

- (C) when equities form part of a forward contract, a future contract or an option contract, irrespective whether equities are to be received or delivered, the reporting bank shall report the relevant leg of the contract that relates to any interest rate or foreign currency exposure in accordance with the relevant requirements specified in this subregulation (7);
- (D) the reporting bank shall report any future or forward contract relating to an individual equity at the current market price;
- (E) the reporting bank shall report futures relating to stock indices as the marked-to-market value of the relevant notional underlying equity portfolio;
- (F) the reporting bank shall treat any equity swap contract as two notional positions.

For example, the bank shall treat an equity swap contract in terms of which the bank receives an amount based on the change in value of one particular equity or stock index and pays a different index as a long position in the former and a short position in the latter.

When one of the legs involves receiving/paying a fixed or floating interest rate, the bank shall report the relevant exposure in accordance with the relevant requirements for interest rate related instruments specified in paragraph (b) above.

- (G) the reporting bank shall either "carve out" any equity option or stock index option with its associated underlying or, based on the relevant requirements of the delta-plus method specified in paragraph (f)(iii) below, incorporate the relevant position in the measure of general market risk.
- (v) Matters relating to the calculation of minimum required capital and reserve funds

In calculating its minimum required amount of capital and reserve funds relating to specific risk and general risk, a bank that adopted the standardised approach for the measurement of the bank's exposure to market risk may fully offset matched positions in respect of each identical equity or stock index in each relevant market in order to obtain a single net short or long position to which the bank shall apply the relevant requirements specified for specific risk and general market risk, that is, the bank, for example, may fully offset a future in a particular equity instrument against an opposite cash position in the same equity instrument, provided that-

- (A) the bank shall report any related interest rate risk arising from a derivative contract in accordance with the relevant requirements specified in paragraph (b);
- (B) the bank shall in respect of any relevant net long or short position relating to an index contract-
 - (i) comprising a well-diversified portfolio of equities that complies with such requirements and criteria as may be specified in writing by the Registrar, in addition to the relevant requirement relating to general market risk specified above, apply a further capital requirement equal to two per cent of the said net long or short position;
 - (ii) other than an index contract comprising a well-diversified portfolio of equities as envisaged in sub-item (i), in addition to the relevant requirement relating to general market risk, apply a further capital requirement equal to four per cent of the said net long or short position,

which capital requirement shall be deemed to make provision for factors such as execution risk,

- (C) when the reporting bank implements a futures related arbitrage strategy, that is, when the bank-
 - (i) enters into an opposite position in exactly the same index at different dates, or in different market centres; or
 - (ii) established an opposite position in contracts at the same date in different but similar indices, and the two indices contain sufficient common components that justify offsetting,

the bank may apply the additional two per cent and four per cent capital requirements specified in item (B) only to one index, that is, the opposite position shall be exempted from a capital requirement;

- (D) when the bank implements an arbitrage strategy, in terms of which strategy a futures contract on a broadly-based index matches a basket of instruments, the bank may "carve out" both positions from the standardised method and apply a minimum capital requirement equal to four per cent, that is, two per cent of the gross value of positions on each side in order to reflect divergence and execution risks, even when all instruments comprising the index are held in identical proportions, provided that-
 - (i) the bank shall deliberately enter into and separately control the relevant exposure;

- (ii) the composition of the basket of instruments shall represent at least 90 per cent of the index when broken down into its notional components;
 - (iii) the bank shall treat any excess value of the instruments comprising the basket over the value of the futures contract or excess value of the futures contract over the value of the basket as an open long or short position;
- (E) the bank also may offset the relevant position when the bank establishes a position in depository receipts against an opposite position in the underlying equity or identical equities in different markets, provided that the bank-
 - (i) shall fully take into account any relevant costs on conversion;
 - (ii) shall report any foreign exchange risk arising from the relevant positions in accordance with the relevant requirements specified in paragraph (d) below.
- (d) Matters relating to foreign exchange risk, including gold
 - (i) Based on the relevant requirements specified in this paragraph (d), a bank that adopted the standardised approach for the measurement of the bank's exposure to market risk shall in the calculation of the bank's minimum required amount of capital and reserve funds relating to foreign exchange risk, including gold, separately calculate-
 - (A) the bank's exposure in respect of each relevant single foreign currency;
 - (B) the risks inherent in the bank's mix of all relevant long and short positions in different foreign currencies.
 - (ii) Matters relating to exposure in each single foreign currency

In respect of each relevant foreign currency, a bank that adopted the standardised approach for the measurement of the bank's exposure to market risk shall calculate its net open foreign-currency position as the sum of-

 - (A) the bank's net spot position, that is, all relevant asset items less all relevant liability items, including any relevant amount of accrued interest;

- (B) the bank's net forward position, that is, all relevant amounts to be received less all relevant amounts to be paid in respect of any forward foreign exchange transaction or futures transaction, including any currency future and the principal amount relating to a currency swap not included in the spot position;
- (C) any relevant guarantee or similar instrument that is certain to be called, and is likely to be irrecoverable;
- (D) any net future income/expense not yet accrued but already fully hedged;
- (E) any other relevant item representing a profit or loss in foreign currency;
- (F) the net delta equivalent value relating to all relevant foreign currency and gold options, provided that the reporting bank shall either separately calculate the relevant minimum required amount of capital and reserve funds in respect of gamma risk and vega risk in accordance with the relevant requirements specified in the delta-plus approach in paragraph (f)(iii) below or calculate the relevant capital requirements relating to option contracts and their underlying instruments in accordance with one of the other methods and its related requirements specified in paragraph (f) below.

Provided that-

- (i) the bank shall separately report all relevant positions in composite currencies, provided that, in order to measure the reporting banks' open foreign-currency position, the bank may either treat the said currencies as a currency in its own right or split the said currency into its component parts;
- (ii) the bank shall separately report any relevant position in gold;
- (iii) when gold forms part of a forward contract, the bank shall report any relevant interest rate or foreign currency exposure arising from the other leg of the contract in accordance with the relevant requirements specified in this subregulation (7);
- (iv) the bank may treat as a single currency any currency pair that is subject to a legally enforceable inter-governmental agreement in terms of which the respective currencies are linked;

- (v) the reporting bank shall include as a position any accrued interest, that is, interest earned but not yet received, or accrued expenses;
- (vi) the reporting bank may exclude from its calculation any unearned but expected future interest and anticipated expenses unless the said amounts are certain and the bank has entered into a hedge in respect of the said interest or expense item, provided that when the bank includes in its calculation any future income or expense as envisaged in this sub-item (vi) the bank shall consistently include the said amounts in all relevant calculations and not selectively include only expected future flows that reduce the bank's foreign-currency position;
- (vii) in respect of any relevant forward currency or gold position the reporting bank shall value the said position based on current spot market exchange rates instead of forward exchange rates, provided that when the bank reports in its management accounts the net present values of the said forward positions the bank shall use the said net present value in respect of each relevant forward or gold position, which positions shall be discounted using current interest rates and valued based on current spot rates in order to measure the bank's forward currency or gold position;
- (viii) subject to the prior written approval of and such further conditions as may be specified in writing by the Registrar, the bank may exclude from the calculation of its net open foreign-currency positions any structural positions deliberately taken by the bank solely to hedge the bank's capital base against the adverse effects of exchange rate movements, provided that-
 - (aa) the said positions shall be of a structural nature, that is, of a non-trading nature;
 - (bb) during the remaining life of the relevant assets or other items, the bank shall treat the relevant hedge in a consistent manner;
- (ix) the bank may exclude from its relevant calculation of minimum required capital and reserve funds relating to foreign exchange risk items such as investments in non-consolidated subsidiaries, which investments constitute impairments against the bank's capital and reserve funds;

(x) subject to the prior written approval of and such further conditions as may be specified in writing by the Registrar, the bank may exclude from its relevant calculation of minimum required capital and reserve funds relating to foreign exchange long-term participations denominated in foreign currency, which participations-

(aa) are reported in the bank's published accounts at historic cost;

(bb) shall be deemed to constitute a structural position.

(iii) Matters relating to a portfolio of foreign currency positions, and gold

In order to measure a bank's exposure to foreign exchange risk arising from a portfolio of foreign currency positions, and gold, the bank may either apply the shorthand method specified in this subparagraph (iii), in terms of which shorthand method all relevant currencies are treated in an equal manner, or the internal models approach specified in subregulation (8) below, which internal models approach, based on the composition of the bank's portfolio of foreign currency and gold positions, takes into account the bank's actual degree of foreign exchange risk, provided that-

(A) when the reporting bank adopts the shorthand method-

(i) the bank shall convert into Rand, at the relevant spot rates, the relevant nominal amount or net present value, as the case may be, of the net position calculated in respect of each relevant foreign currency, and gold;

(ii) the bank's overall net open foreign-currency position shall be deemed to be equal to-

(aa) the greater of the sum of the bank's net short positions or the sum of the bank's net long positions; **plus**

(bb) the bank's net absolute position in gold, that is, the bank's net position in gold irrespective whether the said net position is a long or short position;

(iii) the bank's required amount of capital and reserve funds shall be equal to eight per cent of the overall net open foreign-currency position calculated in accordance with the requirements specified in sub-item (ii) above;

- (B) subject to the prior written approval of and such further conditions as may be specified in writing by the Registrar a bank doing negligible business in foreign currency and which does not take foreign exchange positions for its own account may be exempted from the capital requirements specified in this paragraph (d) in respect of the said foreign exchange positions, provided that-
 - (i) the sum of the bank's gross long positions and gross short positions in all relevant foreign currencies shall at no time exceed 100 per cent of the bank's allocated qualifying capital and reserve funds relating to market risk; and
 - (ii) the bank's overall net open foreign-currency position calculated in accordance with the requirements specified in item (A)(ii) above shall at no time exceed 2 per cent of the bank's allocated qualifying capital and reserve funds relating to market risk.
- (e) Matters relating to commodity risk
 - (i) For the measurement of a bank's exposure to commodity position risk arising from commodity positions held in either the bank's banking book or trading book, which commodity position risk may arise from positions held in respect of precious metals, agricultural products, minerals, oil or base metals, but not gold, since gold is subject to the requirements specified in paragraph (d) above, a bank may-
 - (A) at the discretion of the bank, adopt the simplified approach specified in subparagraph (ii) below, which simplified approach shall be available for a bank that conducts only a limited amount of commodity business;
 - (B) at the discretion of the bank, adopt the maturity ladder approach specified in subparagraph (iii) below, which maturity ladder approach-
 - (i) separately captures forward gap and interest rate risk;
 - (ii) shall be available for a bank that conducts only a limited amount of commodity business;
 - (C) subject to the prior written approval of and such conditions as may be specified in writing by the Registrar, adopt the internal models approach specified in subregulation (8) below, which internal models approach shall ultimately be adopted by a bank that conducts material business in commodities,

Provided that-

- (i) the bank shall in the case of any spot or physical trading duly manage its exposure to directional risk that may arise from an adverse change in the spot price of open commodity positions;
- (ii) when the bank applies a portfolio strategy that involves forward and derivative contracts the bank shall duly manage its exposure, amongst others-
 - (aa) to basis risk, that is, the risk that the relationship between the prices of similar but not identical commodities alters over time;
 - (bb) to interest rate risk, that is, the risk of an adverse change in the carrying cost for forward positions and options;
 - (cc) to forward gap risk, that is, the risk that the forward price may change due to reasons other than a change in interest rates;
- (iii) in all cases the bank shall duly manage its exposure to counterparty credit risk in respect of all relevant over-the-counter derivative contracts;
- (iv) the bank shall report any relevant interest rate or foreign exchange exposure arising from the bank's funding of commodity positions in accordance with the relevant requirements specified in this subregulation (7);

For example, when a commodity forms part of a forward contract, the bank shall report any interest rate exposure or foreign currency exposure that arises from the other leg of the contract in accordance with the relevant requirements specified in this subregulation (7).

- (v) the bank may omit from its commodity risk calculation, positions that are purely stock financing, that is, when physical stock has been sold forward and the cost of funding has been locked in until the date of the forward sale, provided that the relevant position shall be subject to the relevant interest rate and counterparty risk requirements.

(ii) Matters relating to the simplified approach

A bank that adopted the simplified approach for the measurement of the bank's exposure to commodity risk arising from commodity positions held in either the bank's banking book or trading book-

- (A) shall include in all relevant calculations all commodity derivative contracts and all off-balance sheet positions that are affected by changes in commodity prices, including any commodity future, any commodity swap contract, and options when the bank adopts the "delta plus" method specified in paragraph (f)(iii) below, provided that when the bank adopts an approach other than the delta-plus approach in order to measure the bank's exposure to options risk, the bank shall exclude from the simplified approach all relevant options and their associated underlying instruments;
- (B) may in order to calculate the bank's open position in respect of a particular commodity, offset or net any relevant long position and short positions in the specific commodity;
- (C) shall not in the calculation of the bank's open position in respect of a particular commodity offset or net positions in different commodities;
- (D) shall express each relevant commodity position, that is, any relevant spot or forward position, in terms of the relevant standard unit of measurement, which standard unit of measurement, for example, may be barrels, kilograms or grams, and convert the relevant net position in the specific commodity into the reporting currency at current spot rates;
- (E) shall calculate and maintain a capital requirement equal to 15 per cent of the relevant net position in the specific commodity, irrespective whether the net position is a long or short position;
- (F) shall in order to protect the bank against basis risk, interest rate risk and forward gap risk, based on the current spot price of all relevant positions, calculate and maintain an additional capital requirement in respect of each relevant commodity equal to 3 per cent of the bank's gross positions, that is, the sum of the relevant long positions and short positions in respect of the particular commodity.

(iii) Matters relating to the maturity ladder approach

A bank that adopted the maturity ladder approach for the measurement of the bank's exposure to commodity risk arising from commodity positions held in either the bank's banking book or trading book-

- (A) shall include in all relevant calculations all commodity derivative contracts and all off-balance sheet positions that are affected by changes in commodity prices, including any commodity future, any commodity swap contract, and options when the bank adopts the "delta plus" method specified in paragraph (f)(iii) below, provided that-
- (i) when the bank adopts an approach other than the delta-plus approach in order to measure the bank's exposure to options risk, the bank shall exclude from the maturity ladder approach all relevant options and their associated underlying instruments;
 - (ii) in the case of any relevant future or forward contract relating to a particular commodity the bank shall incorporate into its measurement system the relevant notional amount of barrels, kilos or other standard unit, as the case may be, and shall, based on the relevant expiry date of the relevant contract, assign the said contract to the relevant time band;
 - (iii) in the case of any commodity swap contract in respect of which one leg is a fixed price and the other leg the current market price, the bank shall incorporate the said contract into its measurement system as a series of positions equal to the notional amount of the said contract, with one position corresponding with each payment on the swap and assigned to the relevant maturity ladder and relevant time band;
 - (iv) in the case of a commodity swap contract in respect of which the relevant legs are in different commodities, the bank shall incorporate the relevant commodity positions into the relevant maturity ladder for each relevant commodity, that is, the bank shall not apply offsetting between different commodity positions;
- (B) may, in order to calculate the bank's open position in respect of a particular commodity, offset or net any relevant long position and short positions in the specific commodity;
- (C) shall not in the calculation of the bank's open position in respect of a particular commodity offset or net positions in different commodities;
- (D) shall express each relevant commodity position, that is, any relevant spot or forward position, in terms of the relevant standard unit of measurement, which standard unit of measurement may be barrels, kilograms or grams;
- (E) shall convert any relevant net position in respect of each relevant commodity at current spot rates into the required reporting currency;

- (F) shall in respect of each relevant commodity apply a separate maturity ladder in accordance with the relevant requirements specified in table 7 below, that is, based on the requirements specified in table 7 below, the bank shall capture all relevant positions relating to a particular commodity, provided that-
- (i) the bank shall express any relevant position in the relevant standard unit of measurement for the said commodity;
 - (ii) the bank shall capture any physical stock in the first time band;
 - (iii) In order to capture forward gap and interest rate risk within a particular time band, which risks together are often referred to as curvature or spread risk, all relevant matched long positions and short positions in each relevant time band shall be subject to a specified capital requirement;
 - (iv) in respect of each relevant time band, the bank shall multiply the sum of short positions and long positions that are matched firstly with the relevant spot price for the particular commodity and secondly with the spread rate specified for the particular time band, as set out in table 7 below;
 - (v) the bank may subsequently carry forward and offset residual net positions from nearer time bands against exposures in time bands that are further out, provided that-
 - (aa) in order to recognise that hedging of positions across different time bands is imprecise the bank shall in respect of each specified time band apply a further capital requirement equal to 0.6 per cent of the residual net position carried forward;
 - (bb) based on the spread rates specified in table 7 below, the bank shall apply an additional capital requirement in respect of each matched amount created by carrying residual net positions forward;
 - (vi) in respect of the relevant residual long or short positions that remain at the end of the aforementioned process the bank shall apply a capital requirement equal to 15 per cent.

Table 7
Time-bands and spread rates

Time band	Spread rate
0 ≤ 1 month	1,50%
> 1 ≤ 3 months	1,50%
> 3 ≤ 6 months	1,50%
> 6 ≤ 12 months	1,50%
> 1 ≤ 2 years	1,50%
> 2 ≤ 3 years	1,50%
> 3 years	1,50%

For example, assume that, based on the relevant requirements specified above, the positions in respect of a particular commodity are as follows:

Time band	Position	Spread rate	Capital calculation	Capital requirement
0 ≤ 1 month		1,50%		
> 1 ≤ 3 months		1,50%		
> 3 ≤ 6 months	Long = R800 Short = R1000	1,50%	Matched position is R800 long plus R800 short x 1,50% R200 short carried forward to the 1 to 2 year time band means- R200 x 2 x 0,6%	24,00 2,40
> 6 ≤ 12 months		1,50%		
> 1 ≤ 2 years	Long = R600	1,50%	Matched position is R200 long plus R200 short x 1,50% R400 long carried forward to the more than 3 year time-band means R400 x 2 x 0,6%	6,00 4,80
> 2 ≤ 3 years		1,50%		
> 3 years	Short = R600	1,50%	Matched position is R400 long plus R400 short x 1,50% Net residual position is R200 which means R200 x 15%	12,00 30,00

The bank's aggregate capital requirement in respect of the relevant commodity shall be equal to R79,20.

(iv) Matters relating to internal models

A bank that obtained the approval of the Registrar to adopt the internal models approach for the measurement of the bank's exposure to market risk arising from commodity positions held in either the bank's banking book or trading book-

- (A) shall continuously comply with the relevant requirements specified in subregulation (8) below;
- (B) may, based on empirical correlations that fall within a range specified in writing by the Registrar and subject to such conditions as may be specified in writing by the Registrar, offset all relevant long positions and short positions in different commodities;
- (C) shall ensure that the bank's models duly capture and reflect the impact of all relevant market characteristics, including any relevant delivery dates and the scope provided to traders to close out positions.

(f) Matters relating to options

- (i) For the measurement of a bank's exposure to price risk arising from option positions, a bank-

- (A) that solely uses purchased options or hedges all written option positions with perfectly matched long positions in exactly the same options may adopt the simplified approach specified in subparagraph (ii) below;
- (B) that also writes options shall adopt the delta-plus approach, scenario approach or comprehensive risk management model approach respectively specified in subparagraphs (iii) and (iv), and in subregulation (8) below,

provided that-

- (i) the bank shall adopt the more sophisticated approaches specified in this paragraph (f) when the bank's trading activities in options become significant or when the bank conducts business in exotic options;
- (ii) a bank that wishes to adopt the scenario approach or internal models approach shall obtain the prior written approval of the Registrar and shall comply with such conditions as may be specified in writing by the Registrar in addition to such conditions as may be specified in these Regulations.

(ii) Matters relating to the simplified approach

A bank that adopted the simplified approach for the measurement of the bank's exposure to price risk arising from option positions-

- (A) shall "carve-out" the relevant option positions and their associated underlying, irrespective whether the said positions are cash or forward positions, and separately calculate the relevant capital requirements in respect of the said positions in accordance with the relevant requirements specified in this subparagraph (ii), which requirements incorporate both general risk and specific risk, that is, instead of applying the standardised methodology envisaged in this subregulation (7) the bank shall "carve-out" all relevant option positions and associated underlying positions and separately calculate the bank's capital requirements in respect of the said positions;
- (B) shall add to the relevant capital requirements relating to the bank's relevant category of instruments or exposures the relevant capital requirements calculated in accordance with the relevant requirements specified in this subparagraph (ii), that is, for example, interest rate related instruments, equity instruments, foreign exchange or commodities, as the case may be, calculated in accordance with the relevant requirements specified in this subregulation (7);
- (C) shall, based on the relevant requirements specified in table 8 below, calculate the bank's required amount of capital and reserve funds in respect of the said option positions.

Table 8
Simplified approach: capital requirements

Relevant position	Capital requirement
Long cash and long put or Short cash and long call	The bank's capital requirement shall be equal to the market value of the relevant underlying instrument ^{1,2} multiplied by the sum of specific risk and general risk for the said underlying instrument, less the extent to which the option is in the money ³
Long call or Long put	The bank's capital requirement shall be equal to the lesser of: (i) the market value of the underlying instrument multiplied by the sum of the specific and general risk requirement relating to the said underlying instrument; or (ii) the market value of the option.

1. When the market value of the underlying instrument may be zero, such as caps and floors, or swaptions, the bank shall use the relevant nominal value.
2. When it is unclear which side is the "relevant underlying instrument", such as in the case of foreign exchange, the bank shall base its calculation on the asset that will be received when the option is exercised.
3. In the case of options with a residual maturity of more than six months the bank shall compare the strike price with the forward price instead of the current price, otherwise the in-the-money amount shall be deemed to be equal to zero.

For example, when a bank that holds 100 shares currently valued at R10 each has an equivalent put option with a strike price of R11, the bank's capital requirement shall be equal to $R1,000 \times 16$ per cent, that is, 8 per cent specific risk plus 8 per cent general risk, which is equal to R160, less the amount the option is in the money, that is, $(R11 - R10) \times 100$, which is equal to R100. Therefore the bank's aggregate capital requirement in respect of the said position is equal to R60.

(iii) Matters relating to the delta-plus approach

A bank that adopted the delta-plus approach for the measurement of the bank's exposure to price risk arising from option positions, which approach incorporates specified sensitivity parameters associated with options-

(A) shall incorporate the relevant delta-weighted position relating to each relevant option position, that is, the market value of the underlying instrument multiplied with the absolute value of the relevant delta, into the relevant standardised framework specified in this subregulation (7)-

(i) which standardized framework may relate to debt securities and other interest rate related instruments, equity instruments, foreign exchange risk which includes gold, or commodity risk;

(ii) which delta value measures the sensitivity of the value of the option with respect to a change in the price of the underlying asset or instrument;

(iii) which delta-equivalent amount, for example, shall be subject to the relevant general risk requirement;

(B) shall, based on the relevant requirements specified in this subparagraph (iii), in addition to the relevant requirements for delta risk and in respect of each relevant option position, separately calculate the bank's required amount of capital and reserve funds in respect of gamma sensitivity, which gamma sensitivity measures the relevant rate of change in the delta value, and vega sensitivity, which vega sensitivity measures the sensitivity of the value of the option with respect to a change in volatility, which sensitivity parameters are associated with each relevant option position and shall be calculated in the manner approved or specified in writing by the Registrar, provided that-

(i) in respect of the said calculation the bank shall treat the positions specified below as the same underlying.

(aa) In the case of interest rates and in respect of each relevant maturity ladder per currency, each relevant time band specified in table 4 in paragraph (b), provided that a bank that adopted the duration method shall use the relevant time bands specified in table 6 in paragraph (b).

(bb) In the case of equities and stock indices, each relevant

national market sector.

- (cc) In the case of foreign currencies and gold, each relevant currency pair and gold.
- (dd) In the case of commodities, each relevant individual commodity.
- (ii) in respect of the relevant options relating to the same underlying the bank shall aggregate the relevant gamma impact value calculated in respect of each relevant option, which value may be either positive or negative, in order to determine a net gamma impact for each relevant underlying, which net gamma impact may be either positive or negative, provided that in the calculation of the bank's required amount of capital and reserve funds-
 - (aa) the bank shall include only negative net gamma impacts;
 - (bb) the total gamma capital requirement shall be equal to the sum of the absolute value of the net negative gamma impacts calculated in accordance with the relevant requirements specified in this subparagraph (iii);
- (iii) in respect of volatility risk the bank shall calculate its required amount of capital and reserve funds by firstly multiplying the sum of the relevant vega values for all options relating to the same underlying by a proportional shift in volatility of ± 25 per cent and then by aggregating the absolute value of the said individual capital requirements calculated for vega risk;
- (C) shall separately calculate the bank's capital requirements in respect of specific risk by multiplying the relevant delta-equivalent amount of each relevant option position with the relevant specific risk weights specified in paragraphs (b) and (c) above;
- (D) shall in the case of a delta-weighted position with a debt security or interest rate instrument as the underlying instrument include the said position in the relevant interest rate time band specified in paragraph (b) above in a manner similar to other derivative instruments, that is, based on a two legged approach, provided that the bank shall treat any floating rate instruments with caps or floors as a combination of floating rate instruments and a series of European-style options.

For example-

- (i) in respect of the reporting month of April, based on the relevant delta-equivalent value, the bank shall report a bought call option on a June three-month interest-rate future as a long position with a maturity of five months and a short position with a maturity of two months, and a written option as a long position with a maturity of two months and a short position with a maturity of five months;
 - (ii) in respect of the reporting month of April, based on the relevant delta-equivalent value, the bank shall report a two months call option on a bond future in respect of which delivery of the bond takes place in September as a long position in respect of the bond and short a five months deposit;
 - (iii) when the bank holds a three-year floating rate bond indexed to six month JIBAR with a cap of 15 per cent, the bank shall report a debt security that reprices in six months' time and a series of five written call options on a FRA with a reference rate of 15 per cent, each with a negative sign at the time the underlying FRA takes effect and a positive sign at the time the underlying FRA matures.
- (E) shall in the case of an option with an equity instrument as the underlying instrument, based on the relevant delta-weighted position, include the relevant position in the bank's measurement framework in accordance with the relevant requirements specified in paragraph (c) above, provided that the bank shall treat each relevant national market as a separate underlying;
- (F) shall in the case of an option in respect of a foreign exchange or gold position, based on the relevant delta equivalent of the said foreign currency or gold option, include the said position in the measurement of the bank's exposure in respect of the relevant currency or gold position in accordance with the relevant requirements specified in paragraph (d) above;
- (G) shall in the case of an option in respect of a commodity, based on the relevant requirements of the simplified or maturity ladder approach specified in paragraph (e) above, and the relevant delta-weighted position, include the said option position;
- (H) shall in respect of each relevant option position separately calculate the gamma impact according to a Taylor series expansion as:

$$\text{gamma impact} = \frac{1}{2} \times \text{gamma} \times \text{VU}^2$$